

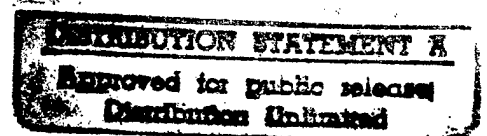


Report to the Chairman, Subcommittee
on the Postal Service, Committee on
Government Reform and Oversight,
House of Representatives

April 1998

U.S. POSTAL SERVICE

Progress Made in Implementing Automated Letter Sequencing, but Some Issues Remain



DTIC QUALITY INSPECTED 2

19980424 069



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-276743

April 17, 1998

The Honorable John M. McHugh
Chairman, Subcommittee on the
Postal Service
Committee on Government Reform
and Oversight
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we provide information on the status of the U. S. Postal Service's efforts to implement Delivery Point Sequencing (DPS), which is the automated rather than manual sorting of letters in the exact order carriers deliver them. Manual sorting of letters by carriers is one of the Service's most costly letter distribution operations. As agreed with your office, our objectives in this report were to (1) determine the Service's goals for DPS implementation, its projected letter carrier workhour savings, and the extent to which the Service has achieved these and (2) identify any remaining issues that may affect the Service's ability to achieve its 1998 DPS goals, including any actions that the Service has taken to address these issues.

DPS is the final phase of the Service's letter mail automation program, which began in 1982. DPS entails the automated sorting of letters that have been barcoded by either business customers or the Service. These barcodes represent the specific delivery points¹ and are to enable DPS equipment to sort the letters to carriers in delivery point sequence. In March 1993, the Service began implementing DPS on its letter carrier routes where it was expected to save time that carriers use to sort letters manually while in the office. The workhours saved by automatically sorting these letters in delivery point sequence were intended to reduce carrier overtime and increase the time available for carriers on the street so that they could deliver more mail. Throughout the report, we use the term "delivery sequence" when referring to letters that have been automatically sorted to carriers in delivery point sequence.

Results in Brief

In its 1992 Corporate Automation Plan (Plan), the Service initially scheduled DPS implementation to be completed by fiscal-year-end 1995. The 1992 Plan included DPS goals and benchmarks (interim targets) for (1) DPS equipment deployment, (2) barcoded letter volume, and

¹A delivery point is a specific street address, for example, a building or a residence.

(3) delivery zone² and carrier route implementation nationwide through fiscal year 1995. In addition, the Service based its decision analyses that supported investments in DPS sorting equipment on achieving (1) a certain DPS letter volume to carrier routes and (2) specific carrier workhour savings. However, implementation fell behind schedule, and the Service acknowledged that it had been overly optimistic in its DPS expectations. In April 1994, the Postmaster General announced that the barcoding goal had slipped from 1995 to fiscal-year-end 1997. In its 1996 Plan, the Service extended the DPS completion date to the end of fiscal year 1998 and revised associated goals and benchmarks.

Specifically, the established DPS goals, benchmarks, letter volume, and projected carrier workhour savings and the Service's progress towards achieving them were the following:

- DPS equipment deployment: The goal was to deploy over 8,500 pieces of DPS sorting equipment nationwide by November 1997. The Service deployed all of this equipment on time.
- Barcoded letter volume: The Service's fiscal year 1997 benchmarks were to barcode 85 percent of all letters. By the end of fiscal year 1997, 81 percent of all letters were barcoded. The fiscal year 1998 goal is to barcode 88 percent of all letters.
- Delivery zone and carrier route implementation: Although the Service did not set a fiscal year 1997 benchmark for implementing DPS in specific delivery zones, the Service has implemented DPS in over 7,600 zones, surpassing its fiscal year 1998 goal of 6,300 zones. The Service set a fiscal year 1997 benchmark that about 149,200 carrier routes were to receive letters in delivery sequence. According to Service data, through fiscal year 1997, over 142,500 carrier routes were receiving letters in delivery sequence, or about 96 percent of the benchmark. The fiscal year 1998 goal is that 154,000 carrier routes are to receive letters in delivery sequence.
- DPS letter volume to carrier routes: The Service's decision analyses that supported the DPS equipment investment assumed that 70 to 85 percent of letters going to certain carrier routes would be delivery sequenced. As of October 31, 1997, Service officials estimated city carrier routes received an average of between 50 to 59 percent of letters in delivery sequence.
- Carrier workhour savings: The Service projected that DPS would cumulatively save 27.2 million city and rural carrier workhours during fiscal years 1994 through 1997. To achieve these savings during this 4-year period, the Service cumulatively reduced its budget by 26.5 million carrier

²A delivery zone is a small geographic area represented by a 5-digit Zone Improvement Plan (ZIP) code and each zone contains a number of carrier routes. It also identifies the post office or delivery unit that will deliver a given letter.

workhours. For this period, actual reductions of carrier workhours were 22.5 million, resulting in a shortfall of 4.0 million, as compared with the budgeted amount. Although in fiscal year 1994, actual carrier workhours increased by 5.6 million, between fiscal years 1995 and 1997, the Service reduced actual carrier workhours by 28.1 million. (See figures 2 and 3 for individual yearly projections.)

The Service has identified and was addressing several issues that have affected its efforts to achieve its DPS implementation goals, benchmarks, and carrier workhour savings. To increase volumes of barcoded letters and DPS letters, the Service has taken several actions. For example, in July 1996, the Service raised the discount given to its business customers as an incentive to increase barcoding. To increase DPS letter volume, the Service is trying to improve its mail processing operations to prevent letters from bypassing automation equipment and plans to implement a new method for delivery sequencing letters to units in multioccupancy buildings, which account for about 19 percent of total deliveries.³ To achieve workhour savings, the Service is working to improve both city carrier delivery efficiency while on the street and frequency of route adjustments to capture DPS-related carrier workhour savings.

While the Service has achieved some success in addressing issues affecting DPS implementation and achievement of DPS goals, it has been less successful in resolving its disagreements with the National Association of Letter Carriers (NALC), the labor union representing city carriers, regarding DPS implementation. In 1992, the Service and NALC agreed to work together to implement DPS and signed six memoranda of understanding, which were to resolve past disputes and provide a plan for DPS implementation. Not long after the memoranda were signed, disagreements developed between the Service and NALC regarding certain aspects of the memoranda. Many grievances were filed at the national and local levels. Although most grievances were resolved through settlement, two went to national level arbitration. In one case, a national level arbitrator decided in favor of the Service. In the second case, a national level arbitrator decided in favor of NALC and instructed the parties to work together to resolve their differences. Other disagreements also arose as the parties gained experience with DPS implementation. The parties determined that the memoranda needed modification; but their negotiations failed, and the Service issued instructions to implement DPS that NALC believed were inconsistent with certain aspects of the memoranda. These instructions generated many grievances at the national

³Multioccupancy addresses include apartments and office buildings, among others.

and local levels, and the parties settled most of these grievances. However, one grievance went to national level arbitration, and the arbitrator decided in NALC's favor and instructed the parties to work together to resolve their differences.

In addition, many city carriers we spoke with said that although they generally saw benefits in DPS, they were concerned about its effect on their daily work. For example, because city carriers must deliver DPS letters without either manually sorting or inspecting them, they believed customer service was affected by their having to identify and sort out undeliverable letters during delivery and then bring them back to the office at the end of the day. In contrast, Service officials said that while DPS has changed the way carriers deliver mail, the changes have not adversely affected customer service.

Background

The Postal Service's letter mail automation program was designed to increase productivity, reduce postal costs, and provide postal customers with more consistent delivery service. The program relies on optical character readers and barcode sorters to automate the mechanized and manual sorting of letter mail, and curb the Service's costs by reducing the number of workhours clerks and letter carriers would need to sort letters. In 1980, the Service's Board of Governors approved the initial procurement of this equipment, which became operational in 1982 and began the \$4.4 billion automation program. These early optical character readers (1) read the last line of the address; (2) verified the city, state, and 5-digit ZIP code against a computer address directory; (3) printed a corresponding barcode on the envelope; and (4) did an initial sort. The companion barcode sorters read the applied 5-digit barcode, enabling the equipment to automatically sort letters to the post offices that were to make delivery. In 1983, the Service introduced the 9-digit, or ZIP+4 code, which enabled the equipment to automatically sort letters not only to the post offices but also to sort down to the carrier routes, post office boxes, buildings, or large business firms. While the 5-digit ZIP code with automation reduced mail processing costs, the 9-digit code further reduced these costs and lowered the number of missorted letters, which improved the consistency of delivery service.

During 1987 and 1988, the Service took three key actions regarding letter mail automation. First, the Service began deploying a newer generation of optical character readers that could read and interpret multiple lines of address information and did not need the 9-digit code to print the barcode

on the envelope. Second, the Service implemented its first rate incentive to encourage business customers to apply barcodes and improve both the address accuracy and print quality of their letter mail. Third, the Service developed its initial Corporate Automation Plan, which spelled out the letter mail automation goals and strategies for achieving them. The primary goal was to barcode virtually all letter mail by the end of 1995, which was to result in substantial savings.

To achieve this goal, the Service's strategy was that mailers, encouraged by rate incentives, would barcode about 40 percent of the letter mail. The Service would barcode the remainder using its optical character readers and remote barcoding systems, which it began in 1992. Remote barcoding systems provide the Service a means of barcoding letter mail containing addresses that its optical character readers cannot read and barcode because the addresses are either handwritten, poorly printed, or have other readability problems. These systems entail making electronic images of these addresses. The images are initially processed by a remote computer-reading device, which attempts to read these addresses and barcode the corresponding letters. Those images that cannot be read are electronically transmitted to off-site locations where operators read and key in enough address information from the images to allow the equipment to barcode the letters.

After the Service had developed the capability to automatically sort letters down to the carrier route level, it began studying the feasibility of automating carriers' manual sequencing of letters into delivery order. In the office, carriers received their letter mail in random order each morning mail was delivered, manually sequenced this mail by inserting each letter into the appropriate pigeonhole of the letter case, removed the mail from the case, and bundled it for delivery.⁴ The Service reported that continued mail volume growth had increased the average carrier's in-office time from about 2 to 3 hours in 1978 to about 4 hours in 1988. As a result, the time that carriers spent on the street decreased, and the average number of delivery points per route decreased from 520 to 470. Because of these factors, more carriers were needed to deliver the daily mail volume.

The Service developed delivery sequencing using an 11-digit barcode that must be applied to letter mail before delivery sequencing will work. The 11-digit barcode combines the 9-digit ZIP code with the last two digits of the street address number, which enables barcode sorters to automatically

⁴Carriers are expected to manually sequence the mail at a standard rate of 18 letters per minute. They are expected to remove the mail from the case and bundle it for delivery at a standard rate of 70 letters per minute. The combined rate for both these activities is expected to be 859 pieces per hour.

sequence letters into the order carriers deliver them. Both mailers and the Service can apply the 11-digit barcode. The Service estimated that delivery sequencing would reduce the average time carriers spend in the office preparing mail for delivery by about 80 minutes per day based on standard letter sorting rates and mail volume. This reduction was expected to allow a commensurate increase in the time carriers spend on the street and the number of delivery points per route.

Two types of barcode sorters are used to delivery sequence letters. The Delivery Bar Code Sorter is the larger of the two machines and is deployed primarily in mail processing plants. Two clerks operate the larger machine, which is designed to delivery sequence multiple routes at the same time and process 25,000 letters per hour. The Carrier Sequence Bar Code Sorter is the smaller machine and is deployed in delivery units that meet certain minimum floor space and letter mail volume requirements. The smaller machine requires one clerk to operate and is designed to delivery sequence one route at a time and process over 19,000 letters per hour.

After letters are delivery sequenced, city carriers are to take them to the street without manually preparing them for delivery within the office. However, all letters cannot be delivery sequenced. As a result, carriers receive and must manually sequence that portion of their letters that were not delivery sequenced. The Service expects that there will always be letters that cannot be delivery sequenced because these letters (1) have characteristics, such as size and shape, that are incompatible with automation equipment; (2) have addresses or barcodes that are incorrect; or (3) originate in, or are destined for, areas with insufficient mail volume to justify investment in automated processing equipment. In addition, carriers receive and must manually sequence flats (large envelopes, magazines, and catalogs), which accounted for about 30 percent of total mail volume in fiscal year 1997.

In fiscal year 1997, the Service reported processing about 191 billion pieces of mail, including about 131 billion letters. The Service also reported that its automation equipment sorted about 76.5 billion, or 58 percent, of these letters. In addition, delivery points have grown at the rate of about 1 percent per year; and in fiscal year 1997, the Service delivered mail to 128 million addresses.

Scope and Methodology

To determine the Service's DPS goals and status of its implementation, we analyzed our prior reports and Postal Inspection Service audit reports on DPS. We reviewed the Service's Decision Analysis Reports, which supported acquisition of DPS related automation equipment and projected automation savings, the Service's DPS guidance and training materials, and six 1992 Joint Memoranda of Understanding on DPS published by the Service and NALC. We reviewed the Service's 1990, 1992, and 1996 Corporate Automation Plans, which describe the activities, benchmarks, goals, and associated time frames necessary to complete the Service's automation program and achieve projected savings. In addition, we interviewed Postal Service headquarters delivery and operations support officials, who are responsible for the overall implementation and management of DPS. We reviewed the Service's DPS tracking data on DPS implementation, such as number of delivery units and routes that receive DPS letters. We reviewed the Service's national data on delivery workhours, volume, city and rural carrier routes, and productivity from fiscal year 1993 through 1997. With these data, we compared DPS performance with the Service's benchmarks and analyzed performance indicators to report trends in workhours, number of deliveries, letter mail volume, and number of carrier routes. However, we did not verify the accuracy of these data.

To identify any remaining issues that may affect the Service's ability to achieve its DPS goals, we reviewed and analyzed the Service's 1996 Plan, which highlights ongoing and planned actions necessary to meet the 1998 DPS goals. We interviewed Postal Service headquarters officials with lead responsibility for completing ongoing and planned DPS related tasks. We also did some preliminary work, which indicated that the Service was experiencing labor-management relations problems over DPS implementation. On the basis of that work and our knowledge of persistent labor-management relations problems in the Service from our past work, we interviewed national representatives of the Service's four major labor unions and three management associations to identify whether they were aware of any labor-management relations issues that may affect the Service achieving its DPS goals.⁵

To observe any issues that the Service and its unions and management associations identified, we selected a judgmental sample of 3 districts and 6 delivery units in 3 of the 11 Postal Areas, which included Capital Metro Operations. Among other considerations, we selected (1) two districts that had fully implemented DPS on all city routes and one district to obtain

⁵U.S. Postal Service: Little Progress Made in Addressing Persistent Labor-Management Problems (GAO/GGD-98-1, Oct. 1, 1997).

additional geographic dispersion because it was located in close proximity to our staff in Denver, which did the field work and (2) two delivery units—within each selected district—with both high-office efficiency and declining street efficiency. We conducted site visits to these locations to observe delivery operations and interviewed responsible area, district, and delivery unit officials. We also judgmentally selected 142 city and rural carriers at the delivery units we visited to obtain their experience and views about DPS implementation. These carriers were selected on the basis of their availability at the time of our visit to the units where they were located. These selected sites, managers, and carriers are not statistically representative; therefore, we cannot generalize from our sample to the universe of all carriers. We do, however, use the results of these interviews to present illustrative examples of DPS-related issues from the points of view of the carriers and managers.

We requested comments on a draft of this report from the Postmaster General and the presidents of the seven labor unions and management associations including the American Postal Workers Union (APWU); NALC; National Postal Mail Handlers Union; National Rural Letter Carriers' Association (Rural Carriers); National Association of Postal Supervisors (NAPS); National Association of Postmasters of the United States; and National League of Postmasters of the United States. The Service and NALC provided written comments, which are reprinted in appendixes IV and V, respectively. APWU and NAPS provided oral comments. The comments of these four organizations are discussed in appropriate sections throughout the report and at the end of the report. The remaining organizations did not provide comments. We conducted our review from June 1997 through February 1998 in accordance with generally accepted government auditing standards (see app. I for additional detail).

Progress Made Toward Achieving DPS Goals

By November 1997, the Service was making progress toward meeting its fiscal year 1998 goal for completion of letter automation through DPS implementation. Since March 1993, DPS has been implemented at increasing numbers of delivery units as equipment was deployed and DPS volume grew. The letter automation program suffered initial slippages, which caused DPS implementation to fall behind schedule. The 1996 Plan revised the benchmarks set in the 1992 Plan, extending the automation program completion date from fiscal-year-end 1995 to 1998. While the Service has not achieved all its DPS implementation benchmarks, it has deployed all authorized DPS equipment and exceeded the goal for number of delivery zones to receive DPS letters. It is making progress in meeting its benchmarks for numbers of barcoded letters and DPS routes. While the Service did not have complete data to measure total DPS volume or percentage on the routes, it estimated that carriers were receiving an average of about half their letters sorted in delivery sequence compared with the 70 to 85 percent, which the Service expects to achieve by the end of fiscal year 1998 when DPS is scheduled to be fully implemented.

DPS Implementation Is an Ongoing Process

DPS implementation has been an ongoing process since it began in March 1993. The 1992 Plan called for implementation of DPS in delivery zones that have an equivalent mail volume of 10 or more city routes and rural routes with city-style addresses.⁶ The 1992 Plan did not call for implementation in small offices and in many rural areas; and the 1996 Plan equated to implementing DPS on 154,000 routes, or about 63 percent of the number of city and rural carrier routes existing at fiscal-year-end 1997. As the volume of barcoded letters increased, the Service purchased and deployed automation equipment needed to delivery sequence the letters and gradually increased the number of delivery units and carrier routes that receive a portion of their letters delivery sequenced.

DPS implementation is achieved through a team effort among local delivery, processing, address management, and logistics operations to extend DPS to increasing numbers of delivery units, such as post offices, stations, or branches where letter carriers prepare mail for delivery and then deliver it to addresses along regularly scheduled routes.⁷ The key DPS implementation steps are as follows:

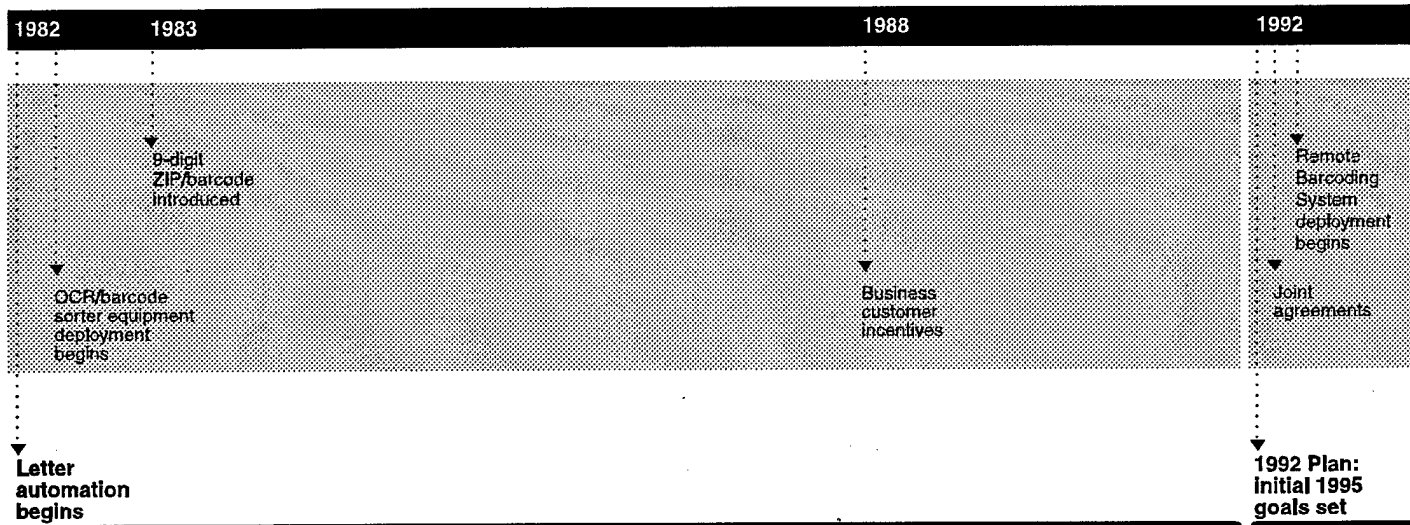
⁶In response to 911 emergency requirements, rural-style addresses are being converted to descriptive city-style street name and numbered addresses.

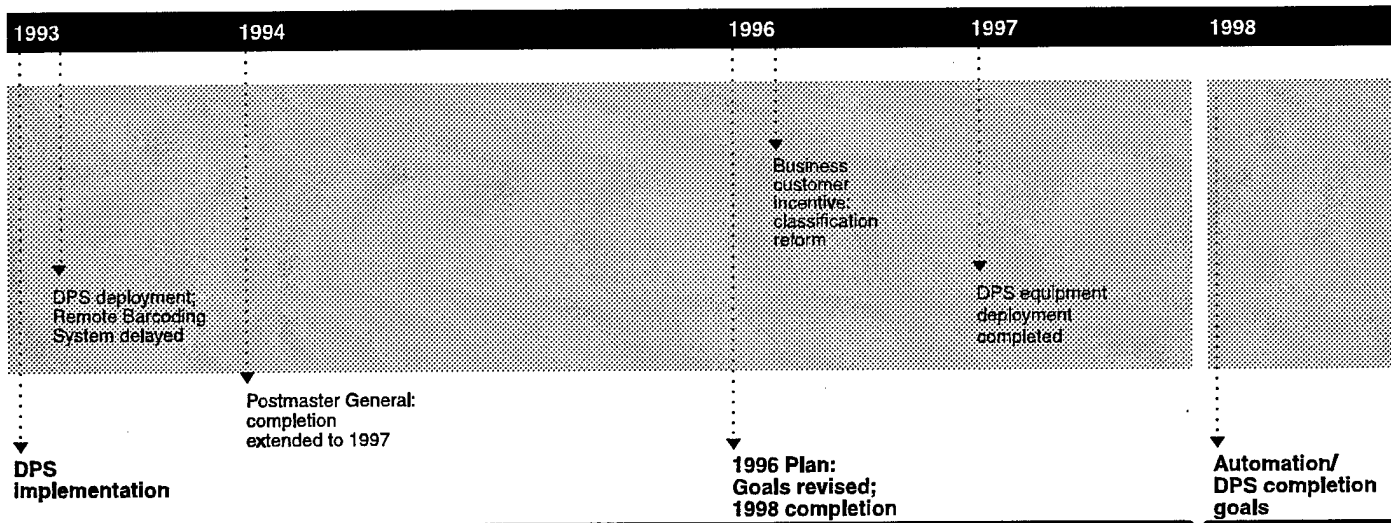
⁷The workload on a route is to be adjusted so that mail is sorted, prepared for delivery, and delivered within 8 hours.

- Select delivery units for DPS that generally have 10 or more city routes or rural routes with city-style addressing;
- Deploy Delivery Bar Code Sorters and Carrier Sequence Bar Code Sorters at mail processing plants and delivery units, respectively, to provide delivery sequenced letters;
- Before DPS is implemented in each delivery unit, analyze route alignments and plan for future DPS realignments by taking the appropriate actions authorized in the 1992 joint agreements' training guide;
- Determine each unit's target DPS percentage of total letters that, when achieved, triggers DPS route adjustments. Targets are set using either the Unilateral or X-Route process⁸ authorized in the Service-NALC 1992 joint agreements. Targets are to be set at 70 to 85 percent under the X-route process and at management discretion under the unilateral process. According to Service guidance, interim adjustments can and should be made when DPS volume reaches 40 percent;
- Manually sort DPS letters and correct any automated sort errors until 98 percent sort accuracy is achieved for 3 consecutive days, after which, DPS letters are taken to the street without manually sorting them; and
- Add delivery points and increase street time on routes to capture in-office workhours that are saved by carriers not manually sorting DPS letters prior to delivery.

Figure 1 presents highlights of events in the implementation of the letter automation program and DPS, which we will discuss throughout this report.

⁸Under the Unilateral process, Service managers set DPS target percentages and plan for route adjustments to capture DPS savings. The X-route process is an alternative in which local NALC and Service representatives can jointly plan to adjust and realign city carrier routes when target percentages are met.

Figure 1: Implementation of Postal Service's Letter Automation Program



Note: Equipment deployment was an ongoing process until 1997, when all DPS and DPS-related equipment was fully deployed. DPS equipment is Delivery Barcode Sorters and Carrier Sequence Barcode Sorters.

Source: Postal Service.

Initial DPS Implementation Fell Behind Schedule

In its 1992 Plan, the Service scheduled DPS implementation for completion by fiscal-year-end 1995. The 1992 Plan included DPS goals and benchmarks for (1) deploying all needed barcode sorters, (2) barcoding virtually all letter mail, and (3) implementing DPS for specific delivery zones and carrier routes. However, the Service was unable to achieve these goals by 1995 as planned, due to several delays in completing the automation program. In August 1992, the Service's Board of Governors postponed approval of the next phase of automated equipment procurement affecting DPS, pending a thorough review and evaluation of the supporting decision analysis report by the newly appointed Postmaster General. Then, in April 1994, the Postmaster General announced that the barcoding goal would have to slip from 1995 to the end of fiscal year 1997. The initial program slippages were primarily due to a shortfall in volume of barcoded letters caused by a delay in deploying remote barcoding and lower-than-anticipated barcoding performance by Service Optical Character Readers. In its 1996 Plan, the Service extended the DPS completion date to the end of fiscal year 1998 and revised associated goals and benchmarks.

In fiscal year 1995, the second full year of DPS implementation, we reported DPS had fallen behind schedule and that the Service would have to overcome difficult obstacles to complete the automation program by the target date, fiscal-year-end 1998.⁹ The Postal Inspection Service also found that the Service experienced initial difficulties implementing DPS and capturing projected savings due to, among other things, low DPS volume and carriers' distrust of sorting accuracy.¹⁰

The Inspection Service also reported that DPS implementation was hindered by, among other things, field units' noncompliance with the Service's national DPS guidelines as well as inefficient flow of letters through automated processing operations or letters totally bypassing automation. In addition, carriers did not always gain the efficiencies the Service needed to capture workhour savings. For example, many carriers wanted and were allowed to manually sort DPS letters before delivery, in part because of low percentages of DPS letters, compared with non-DPS and lack of confidence in sort accuracy.

Shortly after introducing DPS, the Service also lowered its estimate of the amount of office time each carrier would save by not manually sorting DPS mail. Initially, office time was to decrease from the existing 4 hours per day to 2 hours per day, and street time was to increase from 4 hours per day to 6 hours per day. Office workhours were to decrease as the amount of DPS mail provided to the carriers increased. Theoretically, when DPS volume received by each delivery unit met preestablished targets, the DPS routes were to be adjusted to add deliveries and street time. However, as the Service gained experience with DPS implementation, it became clear that target DPS volumes had been set too high and could not be achieved. As a result, the Service lowered its expectation of in-office savings to 80 minutes per day, based on lower targets and standard sorting rates and volumes.

DPS Implementation Was Extended to 1998 and Goals Were Revised

The Service prepared the 1996 Plan to revise automation goals and benchmarks following initial delays in capturing letter automation savings. The 1996 Plan extended the DPS implementation completion date to fiscal-year-end 1998. Achieving the revised implementation benchmarks required that automation equipment be purchased, deployed, and used

⁹Postal Service: Automation Is Taking Longer and Producing Less Than Expected (GAO/GGD-95-89BR).

¹⁰U.S. Postal Inspection Service Delivery Point Sequencing Audit Reports. Case No. 019-1128091-AX(1), Apr. 1994; Case No. 022-1144192-AO(1), Nov. 1994; and Case No. 025-1165775-PA(1), Feb. 1996.

effectively to achieve barcoded and DPS letter volumes. By November 1997, the Service had deployed all authorized DPS equipment—4,784 Delivery Bar Code Sorters and 3,726 Carrier Sequence Bar Code Sorters—at a total cost of about \$1.3 billion. Table 1 shows the letter automation goals that were to be achieved for fiscal years 1995 through 1998, when the program is scheduled to be fully implemented.

Table 1: Letter Automation Implementation Goals and Benchmarks, Fiscal Years 1995 Through 1998

	Fiscal year benchmarks			Fiscal year goal
	1995	1996	1997	1998
Barcoded Letters				
Percentage of total letters to be barcoded	60%	68%	85%	88%
DPS Implementation				
Zones in which DPS is to be implemented	No benchmark	No benchmark	No benchmark	6,300
Carrier routes to receive DPS letters	72,500	120,090	149,190	154,000

Source: Postal Service.

The 1996 Plan did not include specific goals for DPS volume or percentage of DPS letters on carrier routes. However, the Service's analyses of projected carrier workhour savings and its 1992 joint agreements with NALC assumed that as DPS was implemented in delivery units at least 70 to 85 percent of letters arriving in these units for carrier routes would be sorted to DPS. After fiscal year 1998, the Service plans to continue with efforts to further increase barcoded and DPS volumes in order to sequence as many letters as possible.

Some Fiscal Year 1997 Implementation Benchmarks Were Not Achieved

By November 1997, the Service was making progress but had not met all the automation and DPS implementation benchmarks designated in its 1996 Plan for fiscal year 1997. Reported barcoded volume and the number of routes on DPS were slightly below the 1997 benchmarks, despite having exceeded the goal for the number of zones where DPS was scheduled to be implemented. Further, the Service did not obtain data from its field offices sufficient to accurately measure total DPS volume or the percentage of DPS letters going to city and rural routes where DPS had been implemented. In lieu of complete DPS volume data, Service officials estimated that over half of letters given to carriers were sorted in delivery sequence.

Percentage of total letters barcoded. Nationally, the percentage of total letters barcoded increased from about 52 percent in 1993 to about 81

percent in 1997, or about a 29 percentage-point increase. After achieving its fiscal years 1995 and 1996 benchmarks at the end of fiscal year 1997, the Service reported barcoding 106.8 billion, or 81 percent, of total letters compared with the 85-percent benchmark for that year, as shown in table 2. This 4-percentage point shortfall represents about 4.6 billion letters. However, Service officials said they believe they will reach the 1998 barcoding goal of 88 percent of letters as Classification Reform¹¹ encourages more customer barcoding and the Service continues its efforts to increase its own barcoding using Optical Character Readers and remote barcoding.

Table 2: Letter Barcoding Benchmarks as Percentage of Total Letters and Percentage Barcoded by Service and Customers, Fiscal Years 1995 Through 1998

Fiscal year	Benchmark for total letters barcoded	Percentage of letters barcoded by source		Total letters barcoded by customers/Service	Difference between benchmark and percentage barcoded
		Customers	Service		
1995	60%	32%	28%	60%	0 %
1996	68	36	34	70	+2
1997	85	45	36	81	-4
1998	88	N/A	N/A	N/A	N/A

Note: N/A represents no data available (future).

Source: GAO analysis of Postal Service data.

Percentage of letters sorted to DPS. Data on actual DPS volume were not aggregated nationally, but Service officials estimated that, on average, carriers received over half their letters sorted to DPS. DPS savings projections are based on achieving at least 70 to 85 percent DPS volume on carrier routes as DPS is implemented in each delivery unit. The Service's requirements for data to be aggregated nationally resulted in reporting of only a portion of DPS volume. Nationally, data were aggregated only for city routes and letters sorted on Delivery Bar Code Sorters in the processing plants, and excluded DPS letters sorted on Carrier Sequenced Bar Code Sorters deployed in delivery units and all DPS letters on rural routes. The Service also did not aggregate data on total letter volume sent to DPS routes. In the absence of complete data to calculate actual DPS percentage of total letters received by delivery units and routes, Service

¹¹Classification Reform, which was approved by the Postal Rate Commission and Postal Service Board of Governors, was implemented in July 1996 and features a market-based rate structure that provides for low-cost mail by charging rates based on how business mailers prepare their mail for the Service to handle. For example, the Service will give lower rates to mailers who provide full trays of barcoded and sorted letters to a processing center or ZIP code, while charging higher rates for mailers who only sort their letters.

officials arrived at an estimate using average daily mail volumes on city routes. As of October 1997, these routes received an estimated daily average of 1,700 to 2,000 total letters and 1,000 DPS letters. Thus, the officials estimated that DPS routes received, on average, about 50 to 59 percent DPS letters compared with the Service's expectation of 70 to 85 percent when implementation is completed.

DPS percentages varied among delivery units and carriers we visited, but the average generally appeared to be close to the Service's estimated average. At the time of our visits, the six delivery units reported DPS percentages ranging from 35 to 80, with an average of 57 percent but did not have data on DPS percentages for their individual routes. Of 139 carriers we interviewed at these units who provided estimates, 81 percent estimated that their DPS volume was 50 percent or more of total letters. For the 139 carriers, individual estimates ranged from a low of 5 percent to a high of 87 percent.

DPS Zones and Carrier Routes. The Service has surpassed its goal for the number of zones that will receive DPS letters. Better than anticipated performance of the smaller barcode sorters in delivery units has allowed the Service to deploy equipment to more small zones than originally planned; for example, those with mail volume equivalent to less than 10 routes. The 1996 Plan did not establish yearly goals for the number of zones to receive DPS letters but called for 6,300 zones to receive DPS letters by the end of fiscal year 1998. By the end of fiscal year 1997, 7,632 zones were reported as receiving DPS letters.

The Service reported achieving about 96 percent of its fiscal year 1997 benchmark for the number of carrier routes receiving delivery sequenced letters. As shown in table 3, by the end of fiscal year 1997, the Service had reported implementing DPS on 142,557 city and rural routes. Service officials said that as implementation progresses and more addresses are delivery sequenced, they believe they will achieve their goal of 154,000 DPS routes in a fully operational DPS environment.

Table 3: Benchmarks and DPS Routes, Fiscal Years 1995 Through 1998

Fiscal year	Plan benchmarks for total DPS routes	Type of DPS Routes		Total routes	
		City DPS	Rural DPS	Total city/rural DPS	Total (DPS/non-DPS) ^a
1995	72,500	67,608	3,296	70,904	226,317
1996	120,000	99,487	9,088	108,575	228,671
1997	149,190	124,705	17,852	142,557	226,254
1998	154,000	N/A	N/A	N/A	N/A

^aTotal includes city routes (city street and distribution routes) and rural routes.

Note: N/A represents no data available (future).

Source: Postal Service.

Budget Process Is Used to Help Capture Projected Workhour Savings

The Service is capturing projected city carrier workhour savings through its budget process. The Service's decision analyses projected total carrier savings of 27.2 million workhours through fiscal year 1997 and total savings of 56.7 million workhours by the end of fiscal year 2001. Since 1994, the Service has annually reduced city carrier workhour budgets to capture the projected savings. Despite reported budgeted reductions of 26.5 million workhours through fiscal year 1997, actual carrier workhours reported decreased by a total of 22.5 million through fiscal year 1997. However, during fiscal years 1996 and 1997, the Service reported that field offices achieved actual carrier workhour reductions that exceeded their budgeted workhour reductions by 5.8 million. The Service believes these workhour reductions and reductions in number of city routes can be attributed to DPS. However, they acknowledge that some workhour reductions might have been achieved through managers' efforts to increase efficiency that were not related to DPS.

Investment Analyses Project Carrier Workhour Savings

The Service's projections of carrier in-office workhour savings to be achieved by DPS were established in its decision analysis reports, which were used to justify automation equipment investments. Service officials identified six reports that were used to justify investments totaling over \$1.7 billion in barcode sorting equipment (Delivery Bar Code Sorters and Carrier Sequence Bar Code Sorters) needed to implement DPS. These analyses contained assumptions about factors such as equipment deployment and performance, growth in mail volume and delivery points, the pace of DPS implementation, and DPS letter volume. The in-office

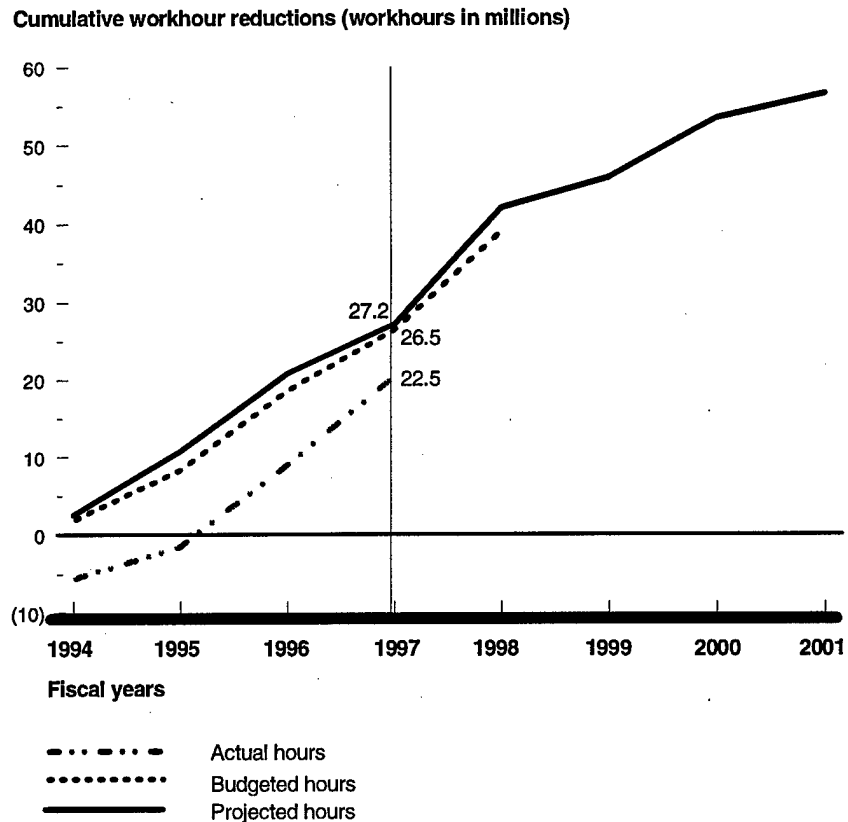
workhour savings were to reduce overtime on routes, extend street time, and ultimately restrain the rate of growth in routes and carrier positions. The Board approved these investments between fiscal years 1992 and 1996, and equipment deployment proceeded in stages during that period. Together, these analyses projected yearly benchmarks for carrier workhour savings. About 56.7 million carrier workhours are projected to be saved through fiscal year 2001.¹² By the end of fiscal year 1997, the total cost of this investment was \$1.3 billion.

Actual Workhour Reductions Fell Short of Those Budgeted and Projected

The Service has budgeted almost all the city carrier workhours that the decision analyses projected would be saved through the end of fiscal year 1997. As shown in figure 2, by the end of fiscal year 1997, budgeted workhour reductions totaled 26.5 million, or over 97 percent of the projected 27.2 million workhour reductions. In fiscal year 1998, DPS is projected to save an additional 14.9 million workhours; and the Service has budgeted 12.6 million. To capture savings in city carrier workhours, Headquarters staff are to adjust the 11 postal areas' annual budgets by reducing carrier office workhours to reflect the projected savings for the coming year. The areas then are to incorporate the budgeted reductions into their districts' budgets. By reducing the city carrier workhour budgets in this manner, Headquarters staff said they believe the projected DPS savings will be captured (see figure 2).

¹²In addition to all the budgeted workhour reductions, the decision analyses projected that additional savings from cost avoidance would accrue for the remainder of the 10-year analysis period. Total net savings after deducting program costs were estimated to be \$6.3 billion.

Figure 2: Cumulative Workhour Reductions, Fiscal Years 1994 Through 2001



Source: GAO analysis of Postal Service data.

Actual total reductions in aggregate city and rural carrier workhours fell short of the amount budgeted between fiscal years 1994 and 1997. As shown in figure 2, by the end of fiscal year 1997, actual carrier workhours had been reduced by 22.5 million, or 85 percent of the budgeted reduction of 26.5 million workhours. Service officials said they believe the workhour reductions achieved are due to DPS because there is no other program that could account for them. However, the officials said that some managers might have achieved some workhour reductions through individual initiatives that were unrelated to DPS. For example, one delivery unit we visited was not achieving all the workhour savings expected from DPS because DPS volume was only 60 percent of total letters, but the manager said the unit was able to increase its savings by implementing suggestions

made by carriers for changes, not related to DPS, that would make their jobs easier. Although Service managers praised DPS' ability to save carrier workhours, they said that individual delivery units may not achieve expected savings due to certain conditions—such as volume mix and growth, staffing levels, labor-management relations, and management quality.

Actual Workhour Reductions Achieved in Recent Years Offset Early Increases

Even though aggregate actual workhour reductions lagged behind those projected and budgeted for fiscal years 1994 through 1997, actual workhour reductions in each of the last 2 years of this period exceeded those budgeted. In fiscal years 1996 and 1997, as shown in figure 3, actual workhour reductions exceeded the budgeted amounts by 1 and 4.8 million, respectively. These reductions helped offset an initial workhour increase in fiscal year 1994. Service officials said this unanticipated increase in workhours was due to a national level arbitrator finding in favor of NALC in a case regarding the Service's establishment of city carrier routes that required more than 8 hours to complete, which the arbitrator determined violated the parties' labor agreement. This decision caused the Service to hire about 18,000 career city carriers between fiscal years 1993 and 1994. As a result, as shown in figure 3, not only were there no workhour reductions in fiscal year 1994, but workhours increased by 5.6 million.

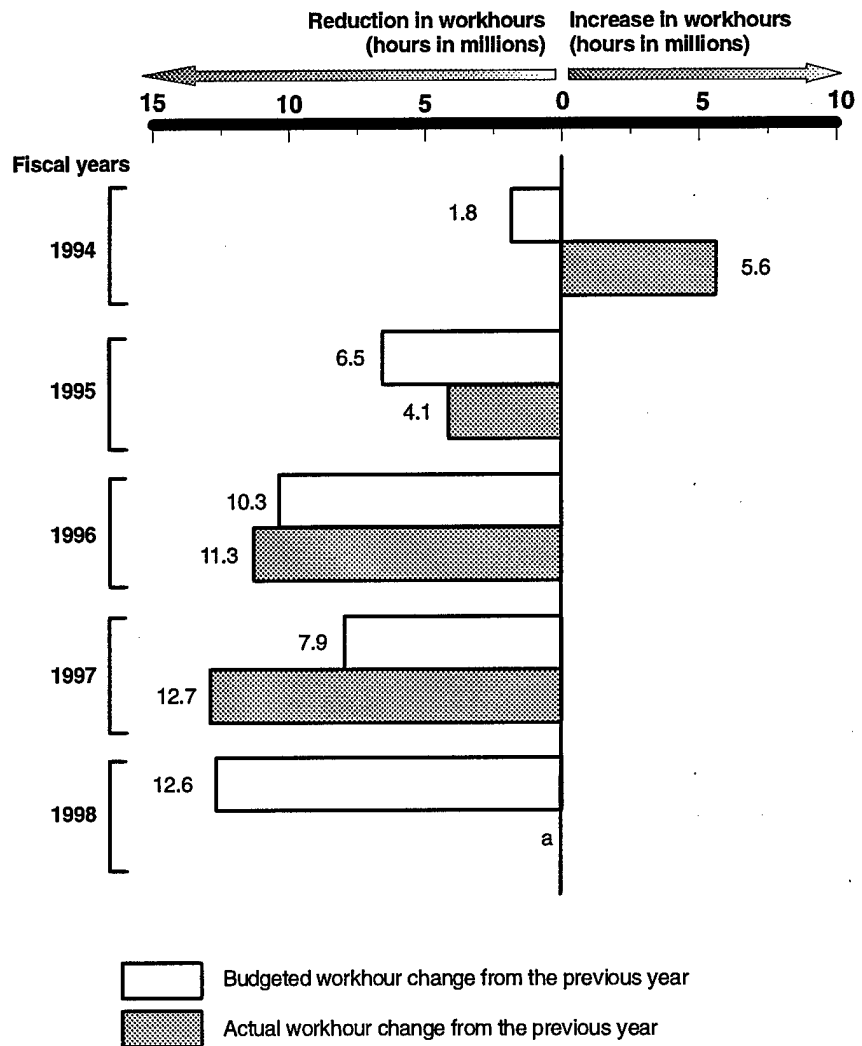
Furthermore, Service officials said that growth in volume and delivery points during the period exceeded their expectations, which also affected the field units' ability to achieve projected savings. Even when allowing for this growth, the officials said that they believe the Service had avoided more costs than was evidenced by their workhour reductions alone. For example, the eight-tenths of 1 percent annual growth in number of delivery points on city routes, without DPS, would require adding 1,300 city routes per year. These officials said that DPS had allowed them to avoid much of the cost of this growth and also reduce the number of city routes that were needed. Factoring in the additional workload resulting from this growth, if DPS had not been implemented, the Service calculated that it would have used 30.4 million more city carrier workhours between fiscal years 1993 and 1997 than it actually used.

As a result of this cost avoidance, Service officials reported that city carrier routes increased by 267 in fiscal year 1995 and decreased in fiscal years 1996 and 1997 by 858 and 2,561, respectively, which resulted in an overall decrease of 1.8 percent since fiscal year 1994. These officials estimated that the number of city routes will continue to decline through

fiscal year 2000. In contrast, the number of rural routes increased by 5,938, or 11.5 percent, during the same period. The officials said that one reason for this growth is that delivery points on rural routes have grown by an average of 3.84 percent annually since fiscal year 1994. In addition, the cost per delivery is lower for rural routes than for city routes, so when new routes become necessary due to growth, delivery managers tend to establish rural routes where feasible and cost effective.

In commenting on a draft of this report, the President of NAPS told us that he believed the Service establishes rural routes over city routes, not because rural routes were less costly, but because rural carriers do not present as many labor relations problems as do city carriers. He also believed that rural routes are not really less costly to the Service than city routes because the rural carrier compensation system is too liberal. Under this system, rural carriers are salaried employees who are paid for a full 8-hour workday or 40-hour workweek with some overtime built into their salaries. However, this system allows rural carriers to go home early and receive a full day's pay if they complete their work in less than 8 hours.

Figure 3: Annual Changes in Budgeted and Actual Carrier Workhours



Note: By fiscal-year-end 1997, there was a total net decrease in actual carrier workhours of 22.5 million.

^aActual workhours for fiscal year 1998 were not available.

Source: GAO analysis of Postal Service data.

Rural routes reportedly contributed an estimated 4.5 million workhours in direct DPS savings valued at about \$100 million. In contrast to city routes, on which carriers are paid by the hour for 8-hour routes plus any authorized overtime, rural carriers bid on their routes and are paid salaries that represent the value of the routes established through annual evaluations of mail volume and time required to manually sort mail and make deliveries. As a result, DPS savings from rural routes are to be captured annually by reducing the value of the routes and carriers' pay commensurate with the volume of DPS letters that the carriers do not have to sort. Because the savings were already extracted from rural carriers' salaries, there was no need to manage and track rural carriers' hourly savings. As a result, the Service allows rural carriers to manually sort DPS letters if they wish. However, city carriers must capture savings each day in hourly increments by not manually sorting DPS letters. As a result, the Service does not allow city carriers to sort DPS letters.

The Service Is Addressing Identified Operational Issues

The Service has been addressing remaining issues it believes have affected its efforts to achieve its fiscal year 1998 DPS goals and benchmarks and maximize carrier workhour savings resulting from DPS. These issues include both operational and labor-management relations issues. The Service has made considerable progress in its efforts to address operational issues, although it has been less successful with those concerning labor-management relations. Table 4 presents an overview of the operational issues and the Service's efforts to address them.

**Table 4: Operational Issues Affecting
DPS Goals and Service Efforts to
Address Them**

Operational Issues	Service efforts
Less than expected barcoded letter volume	<ul style="list-style-type: none"> —Implement better rate incentives to encourage business customers to increase barcoding and improve address accuracy and quality —Improve management of mail flow through automated barcoding operations
Low DPS letter volume	<ul style="list-style-type: none"> —Improve management of mail flow through automated sorting operations —Implement method to sequence letters addressed to units within multioccupancy buildings
Insufficient delivery management and carrier street efficiency	<ul style="list-style-type: none"> —Improve timeliness of route adjustments —Increase supervision and monitoring of city carrier street operations —Test alternative delivery methods and new carrier performance standards

Source: Postal Service.

The operational issues shown in table 4 were identified by the Service as impeding its efforts to achieve DPS goals and benchmarks and maximize DPS savings. The Service has efforts under way to increase barcoded and DPS letter volumes by encouraging business customers to apply barcodes and improve address quality through rate incentives. The Service has also begun efforts to improve the management of mail flow through its automated barcoding operations by providing more training to employees as well as enhancing the capabilities of its optical character readers. Further, to improve management of mail flow through its automated sorting operations, the Service is attempting to determine causes of problems and then resolve them. Also, DPS implementation teams have been designated to, among other things, serve as links between mail processing and delivery unit operations regarding DPS issues. Finally, the Service has developed, and is in the process of implementing, a method to sort in delivery sequence letters that are addressed to units in multioccupancy buildings, which account for about 19 percent of total deliveries.

Regarding city carriers' declining street efficiency, the Service is focusing efforts on improving delivery management to reverse this trend and enhancing its ability to adjust routes to capture DPS savings. To increase

workhour savings, additional funds have been provided by the Service so that route inspections can be conducted and carriers' routes can then be adjusted to capture DPS savings. The use of contractors to perform route inspections has also been authorized by the Service. In addition, it is working to improve supervision of city carriers' street operations and testing both alternative delivery methods and new city carrier performance standards. For a more detailed discussion of the operational issues and the Service's actions to address them, see appendix II.

Labor-Management Relations Issues Have Been Problematic

Although the Service has made progress toward resolving its operational issues, it has been less successful in resolving those involving labor-management relations. Labor-management relations issues also have been affecting the Service's efforts to reach its fiscal year 1998 goals and benchmarks. These issues also affect the Service's ability to maximize DPS savings. Labor-management relations issues include disagreements with NALC over DPS implementation and the need to gain the support of city carriers who are dissatisfied with DPS work methods. Table 5 presents an overview of the labor-management relations issues we identified and the Service's efforts to address them.

Table 5: Labor-Management Relations Issues Affecting DPS Goals and Service Efforts to Address Them

Labor-management relations issues	Service efforts
Poor working relationship with NALC over DPS implementation and other concerns	—The Service and NALC, in October 1997, jointly signed an agreement to test a revised dispute resolution process aimed at narrowing dispute areas and resolving disagreements
Insufficient city carrier support for DPS work methods	—The Service and NALC agreed to conduct a joint study to determine the most efficient method for handling unaddressed flats in response to arbitrator's ruling

Source: Postal Service, NALC, and city carriers.

The Service has had problematic relations with three of the four major labor unions that represent postal employees, including NALC, which represents city carriers, over a variety of issues for a long period.¹³ DPS implementation has been one of the contentious issues between the Service and NALC and its city carriers. The DPS conflicts revolved around

¹³GAO/GGD-98-1.

three areas: (1) the work methods that should be used by city carriers to implement DPS; (2) the manner in which the Service implemented DPS, which NALC viewed as inconsistent with the agreements it had reached with the Service; and (3) DPS' effect on city carrier street efficiency. Many city letter carriers said that they believe DPS work methods adversely affected their efficiency and, in some cases, service to their customers. City carriers were particularly concerned about not being able to manually sort DPS letters to combine them with the non-DPS bundle or to identify DPS sort errors and other undeliverable letters before going to the street. Many of the city carriers' disagreements with DPS resulted in grievances, filed at the national and local levels. Although most grievances were resolved through settlement, three went to national level arbitration.

In 1996, a national level arbitrator ruled on one of the cases. The arbitrator found that the Service had not violated the rules relating to transitional employees from prior agreements. During 1997, another national level arbitrator ruled on the two remaining cases and determined that the Service had violated either provisions of existing labor agreements or the 1992 joint agreements. The arbitrator instructed the Service and NALC to jointly determine alternative methods to resolve the problems. In one case, the parties agreed to conduct a joint study of the issues involved and complete the study by April 1998. In the second case, the parties have met to discuss the issue; but as of March 1998, they had not yet reached agreement on how to proceed to resolve the issue. In addition, to improve their overall working relationship, on October 20, 1997, the Service and NALC signed an agreement to test a revised dispute resolution process aimed at narrowing areas of dispute and effectively and constructively resolving their disagreements.

Regardless of how one views the Service's and NALC's positions, the disagreements between them have resulted in adverse consequences. These consequences include delays in capturing early DPS savings from route adjustments, dissatisfaction among many city carriers, and additional contentions between the Service and NALC. In part, due to the arbitrator's decisions, the Service and NALC have begun to jointly work on some of the areas of disagreement. Unlike the situation with NALC and city carriers, the Service has not had a contentious relationship with its rural letter carriers or their union, the Rural Carriers. This is largely due to the agreement the Service reached with the Rural Carriers regarding a new manual sorting standard for delivery sequenced letters. For a more detailed discussion of labor-management relations issues and the Service's actions to address them, see appendix III.

Comments From the Postal Service, Labor Unions, and Management Associations and Our Evaluation

We provided a draft of our report to eight organizations for their review and comment. The eight organizations were

- the Postal Service;
- the four labor unions, including APWU, NALC, National Postal Mail Handlers Union, and Rural Carriers; and
- the three management associations, including, NAPS, National Association of Postmasters of the United States, and National League of Postmasters of the United States.

We received written comments from the Service and NALC. We obtained oral comments from NAPS and APWU. The remaining organizations said they did not wish to comment on the draft report. Service officials also provided written and oral technical comments to clarify and update some information in the draft report.

Overall, the Service and NALC expressed diverse views regarding the effects of DPS and its related labor-management relations issues. The Service said that our report gave an accurate summary of the letter mail automation programs. The Service reiterated the extent of DPS implementation on carrier routes and workhour savings, which it noted was more successful than anticipated. The Service also acknowledged that it and NALC have had numerous disagreements regarding DPS implementation, but that the disputes over DPS have either been resolved or are in the process of being resolved, and that the parties are engaged in a number of cooperative ventures that they expect will have a beneficial effect on labor-management relationships. We have reprinted the Service's comments in appendix IV.

In its comments, NALC reaffirmed its support for DPS and noted that automation would enhance the Service's long-term viability and employment of the letter carrier craft. NALC criticized the methodology we used to gather information, including our reliance on (1) data provided by the Service without verifying its accuracy, (2) interviews with and observations of a relatively small number of letter carriers, and (3) Service managers' opinions about the success of DPS.

While we recognize and take special care to adhere to the limitations associated with our scope and methodology, we do not agree with NALC's critical characterization of the report. The report clearly laid out our objectives, scope, and methodology, including the limitations, so as to fully inform the reader of the basis and context surrounding the

information in the report. Due to limited resources and the technical difficulties inherent in verifying the Service's data, which are aggregated from its vast field network, we disclosed in the report that we used the Service's data on carrier workhours without verifying it. We also clearly disclosed that we interviewed a relatively small number of city carriers in three postal districts to obtain their opinions about DPS issues. We discussed in the report, several types of data that the Service did not have or that were not sufficient to produce accurate measures, such as DPS sort accuracy and percentage of DPS letters on carrier routes. To supplement the available data and to discern the Service's position on DPS implementation history and labor relations issues, we obtained the views and opinions of Service delivery managers. Further, to provide balance, we obtained views and opinions about these same issues from national leaders of NALC and included both parties' opinions in the report.

NALC also commented on several specific issues discussed in the report. We considered these comments and made changes to the report where appropriate. We also have included a reprint of NALC's comments and our additional comments on specific issues, where appropriate, as appendix V.

The oral comments we received from APWU and NAPS primarily sought clarification of points based on their positions and knowledge of historical events regarding letter mail automation and carrier delivery operations. The Assistant Director of APWU's Clerk Division told us that postal clerks—which APWU represents—have made various contributions to assist the Service's letter mail automation efforts, which the report should mention. He pointed out that APWU clerks have always cooperated with the Service to implement automation and entered into agreements with the Service that have facilitated the Service's capture of savings. We agree that the postal clerks have made contributions in reducing workhours in the Service's processing plants as automation was implemented.

The President of NAPS gave us his views about the Service's difficulties in managing city carrier delivery operations and the need for city carriers to support DPS. He said that the Service's curtailment of route inspections between about 1975 and 1990 marked the beginning of the Service's difficulties in managing city delivery operations. Without route inspections, normal mail volume growth and new addresses resulted in routes that were out of adjustment. These routes had workloads that could not be completed within 8 hours, which led to significant amounts of overtime each day to deliver mail. City carriers serving these routes were required to negotiate daily with their supervisors for overtime. Overall, he

said that this condition triggered the conflict between city carriers and their supervisors that continues today.

The President of NAPS said that some incentives are needed to encourage carriers to support DPS. For example, he suggested that if routes could be accurately evaluated each day, the daily overtime negotiations would be eliminated and carriers could be allowed to go home after completing their duties, even if they finish in less than 8 hours. The President said that he believed this would be possible when DPS is fully implemented, including the automated sorting of flats. That is, every morning, delivery unit supervisors could obtain exact mail counts from the automation equipment and use these data to evaluate workload requirements on each route. This would allow the supervisors to determine exactly how much time individual carriers would need to sort and deliver their mail on that day. The President believes these daily evaluations could replace the periodic city route inspections now conducted and would be superior to the annual evaluations now conducted on rural routes to determine rural carriers' salaries. However, he said that if incentives are unsuccessful and carriers do not cooperate, supervisors cannot be expected to watch all the carriers while they deliver mail to ensure they are working efficiently. For this reason, the President said that he would support the use of a global satellite system, which is now being tested, to monitor carriers while they deliver mail. He also provided other comments about the information presented in the draft report, which have been incorporated into the report where appropriate.

We are providing copies of this report to the Subcommittee's Ranking Minority Member; the Chairman and Ranking Minority Member of the Senate Committee on Governmental Affairs, the Postal Service, APWU, NALC, National Postal Mail Handlers Union, Rural Carriers, NAPS, National Association of Postmasters of the United States, and National League of Postmasters of the United States, and other interested parties. We will also make copies available to others on request.

Major contributors to the report are listed in appendix VI. If you have any questions, please call me on (202) 512-8387.

Sincerely yours,

A handwritten signature in cursive script, reading "Bernard L. Ungar".

Bernard L. Ungar
Director, Government Business
Operations Issues

Contents

Letter		1
Appendix I Objectives, Scope, and Methodology		34
Appendix II Operational Issues Affecting Achievement of Fiscal Year 1998 DPS Goals		38
Appendix III Labor-Management Relations Issues Affecting Achievement of Fiscal Year 1998 DPS Goals		49
Appendix IV Comments From the Postal Service		58
Appendix V Comments From the National Association of Letter Carriers	GAO Comments	59 64
Appendix VI Major Contributors to This Report	General Government Division Denver Field Office	66 66 66

Tables

Table 1: Letter Automation Implementation Goals and Benchmarks, Fiscal Years 1995 Through 1998	15
Table 2: Letter Barcoding Benchmarks as Percentage of Total Letters and Percentage Barcoded by Service and Customers, Fiscal Years 1995 Through 1998	16
Table 3: Benchmarks and DPS Routes, Fiscal Years 1995 Through 1998	18
Table 4: Operational Issues Affecting DPS Goals and Service Efforts to Address Them	25
Table 5: Labor-Management Relations Issues Affecting DPS Goals and Service Efforts to Address Them	26

Figures

Figure 1: Implementation of Postal Service's Letter Automation Program	12
Figure 2: Cumulative Workhour Reductions, Fiscal Years 1994 Through 2001	20
Figure 3: Annual Changes in Budgeted and Actual Carrier Workhours	23

Abbreviations

APWU	American Postal Workers Union
CFS	Service's Computerized Forwarding System
DPS	Delivery Point Sequence
NALC	National Association of Letter Carriers
NAPS	National Association of Postal Supervisors
NAPUS	National Association of Postmasters of the United States
ZIP	Zone Improvement Plan

Objectives, Scope, and Methodology

In a June 9, 1997, letter, the Chairman of the Subcommittee on the Postal Service, House Committee on Government Reform and Oversight, asked us to provide information on the status of the U.S. Postal Service's efforts to implement Delivery Point Sequencing (DPS). As agreed with the Chairman's office, our objectives were to (1) determine the U.S. Postal Service goals for DPS implementation, its projected letter carrier workhour savings, and the extent to which the Service has achieved these; and (2) identify any remaining issues that the Service and others believe must be addressed for the Service to achieve its 1998 DPS goals and the actions, if any, that the Service has taken to address these issues.

To determine the Service's goals for DPS implementation, we reviewed the Service's 1990, 1992, and 1996 Corporate Automation Plans, which among other things described the DPS related activities, annual benchmarks, goals, and associated timeframes for completing the letter mail automation program. We reviewed the Decision Analysis Reports, which justified the DPS-related automated equipment investment, to identify the (1) assumed DPS letter volume that carrier routes were to receive and (2) projected carrier workhour savings that were to be achieved from DPS implementation. To determine the progress the Service has made toward achieving its goals, we obtained the Service's fiscal years 1993 through 1997 national data on actual carrier workhour savings; barcoded and DPS letter volumes; productivity; and the number of delivery zones, delivery units, and carrier routes that receive DPS letters. We compared these actual data with the appropriate DPS benchmarks, goals, assumptions, and projected workhour savings in the 1996 Corporate Automation Plan (Plan). We discussed with responsible Postal Service headquarters officials these benchmarks, goals, assumptions, and projected carrier workhour savings to assist us in determining the progress the Service has made toward achieving them. We also discussed with these officials how the Service (1) used its budget process to capture carrier workhours savings and (2) determine the cost avoidance associated with DPS implementation. We did not verify the operational and budget data that the Service provided.

To identify any remaining issues that may affect the Service's ability to achieve its 1998 DPS goals, we considered the findings from our prior audit reports and those of the Postal Inspection Service on letter mail automation. We analyzed the ongoing and planned DPS implementation tasks described in the 1996 Plan, which the Service plans to complete to achieve its 1998 DPS goals. We discussed these findings and tasks with responsible Postal Service headquarters officials and asked them to

identify the key issues that remain, which the Service must address. We also asked the officials to identify any actions the Service has taken to address any remaining issues and the current status of these actions.

Our preliminary work indicated that the Service was experiencing labor-management relations problems with its city carriers over DPS implementation. On the basis of that work and our knowledge of persistent labor-management relation problems in the Service from our past work,¹⁴ we contacted the Service's four major labor unions and three management associations to identify whether these organizations believed that there were any labor-management relations issues that the Service must address to achieve its 1998 DPS goals. We interviewed national representatives of these organizations located in the Washington, D.C. metropolitan area to obtain their views on the impact DPS implementation has had on postal operations and the working conditions of the postal employees they represent. The four labor unions contacted were (1) the American Postal Workers Union (APWU), (2) the National Association of Letter Carriers (NALC), (3) the National Postal Mail Handlers Union (Mail Handlers), and (4) the National Rural Letter Carriers' Association (Rural Carriers). The three management associations contacted were (1) the National Association of Postal Supervisors (NAPS), (2) the National Association of Postmasters of the United States (NAPUS), and (3) the National League of Postmasters of the United States (the League). We also discussed the identified labor-management relations issues with responsible Postal Service headquarters officials. To gain an understanding of labor-management relations issues within the Service, we reviewed relevant documents, including our prior reports, Service and NALC 1992 joint agreements, national arbitration cases regarding city carrier grievances associated with DPS, and city carrier DPS training materials.

To observe any issues that the Service and its unions and management associations identified, we selected a judgmental sample of 3 districts and 6 delivery units located within 3 of the 11 Postal Areas, which included Capital Metro Operations (Capital Area).¹⁵ We selected the Northern Virginia District in the Capital Area and the Suncoast District in the Southeast Area because these two districts had fully implemented DPS on

¹⁴GAO/GGD-98-1.

¹⁵There are 10 Postal Areas, each led by a vice president in addition to Capital Metro Operations led by a manager of operations who reports to postal headquarters as do the 10 Postal Area vice presidents. For purposes of management responsibility and data development and tracking, Capital Metro Operations is equivalent to a postal area.

all city routes, which meant that carriers on these routes were receiving and taking delivery sequenced letters directly to the street. We also selected the Denver District in the Western Area because it gave us additional geographic dispersion and was located in close proximity to our staff in Denver. Within each district, we selected two units that reported both the highest office efficiency¹⁶ and declining street efficiency,¹⁷ compared to the same period last year, and were located within 2 hours driving distance of the district office. We used these efficiency measures as selection criteria because according to the Service (1) office efficiency was expected to increase with DPS implementation and (2) street efficiency had declined on both DPS and non-DPS routes, and the Service reported that this decline had offset some DPS savings. We limited the number of districts and delivery units selected to three and six, respectively, because gathering DPS related information from these offices was a time-consuming effort that involved examining records and interviewing managers, carrier supervisors, and carriers at several geographically dispersed locations.

We interviewed responsible Service officials from the three district offices to obtain their views on DPS implementation within the district. We discussed the DPS implementation process, its effect on mail processing and delivery operations, carriers' concerns with DPS work methods, and ongoing efforts to identify and resolve DPS related problems. In addition, we interviewed responsible Service officials in the three area offices to obtain an area-wide perspective on DPS implementation, capturing DPS savings through the budget process and route adjustments, and carriers' concerns with DPS work methods.

At each of the six delivery units we visited, we interviewed the managers, carrier supervisors, and carriers to obtain their views on DPS implementation and related concerns about DPS work methods. Because carriers generally are to spend most of their workday on the street delivering mail, the best time to interview them is in the morning while they are in the office. To maximize the number of carriers who could be interviewed by our available staff, we arrived at each delivery unit about the time the carriers reported for work and began interviewing them. We judgmentally selected the carriers that were interviewed on the basis of their availability at the time of our visit. In order not to disrupt delivery operations, we interviewed carriers individually while they prepared their mail for delivery. Each interview required 5 to 10 minutes to complete. We

¹⁶Office efficiency is the number of possible deliveries for a route divided by the office workhours required to manually sort the mail prior to delivery.

¹⁷Street efficiency is the number of possible deliveries for a route divided by the street workhours required to deliver the mail.

continued interviewing the carriers until they departed the office to deliver the mail. In total, we interviewed 111 city and 31 rural carriers at the 6 delivery units. We then met with unit management to discuss the progress and problems associated with DPS implementation within the unit. We reviewed each unit's operational data, which included detailed information on the carrier workforce, mail volume, possible deliveries, and route adjustments. At two delivery units, one of our staff members accompanied a carrier on the route to observe DPS work methods.

The selected units and carriers are not statistically representative; therefore, we cannot generalize from our sample to the universe of all carriers. We do, however, use the results of these interviews to present illustrative examples of DPS-related issues from the carriers' points of view. While we most likely did not identify every possible DPS related issue that could exist within the universe of delivery units, according to district officials, the units we visited were not atypical of others within the districts.

In addition, we visited two mail processing plants in Denver, CO, and Tampa, FL, and a remote barcoding site in Tampa. We toured each facility and observed its DPS-related operations. We met with responsible Service officials at each facility and discussed various DPS-related issues, including DPS equipment deployment, operation, and enhancement; mail flows; barcoding; and problem identification and resolution.

We did our work from June 1997 through February 1998 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Postmaster General; the presidents of the four labor unions (APWU, NALC, Mail Handlers, and Rural Carriers); and the three management associations (NAPS, NAPUS, and the League). We received written comments from the Service and NALC, which are reprinted in appendixes IV and V, and obtained oral comments from APWU and NAPS. The comments of these four organizations are discussed in appropriate sections throughout the report and at the end of the report. The remaining organizations did not provide comments.

Operational Issues Affecting Achievement of Fiscal Year 1998 DPS Goals

The Service was addressing operational issues that it believed impeded its efforts to achieve DPS goals and benchmarks and maximize DPS savings. These issues include (1) less than expected barcoded letter volume, (2) low DPS letter volume, and (3) declining street efficiency. These issues and the Postal Service's efforts to address them are discussed as follows.

Efforts to Increase Barcoded Letter Volume

The Service is attempting to achieve a 7-percentage point increase in barcoded letters to meet its 1998 DPS implementation goal of 88 percent. Service officials said they believe they will achieve this goal through better rate incentives for customer barcoding and resolving mail flow and readability problems. In anticipation of implementing better rates for customer barcoding, the Service revised its barcoding strategy from about 40 percent of barcodes to be supplied by customers to 50 percent, by fiscal-year-end 1998. In July 1996, the Service implemented better rates for customer barcoded letters that meet new requirements for barcode quality and address accuracy, which is critical to achieving accurate 11-digit barcoding. The officials believe these better rates were a major factor in customer barcoding increasing over 9-percentage points during fiscal year 1997, compared with increases of about 3.5-percentage points during each of the 2 previous years.

The Service is also trying to increase the number of letters it barcodes in its mail processing plants. Since fiscal year 1993, Service data show it has increased its barcoding by only 11-percentage points. Service managers said that mail processing plants were neither barcoding all the letters that could be barcoded nor upgrading all letters that have 5- or 9-digit barcodes to 11-digit barcodes. The managers said that many letters were not being barcoded or upgraded because mail processing personnel did not route these letters to the appropriate optical character readers or remote barcoding systems for processing. According to Service officials, local mail processing managers have taken various actions to correct these mail flow problems. These actions include (1) enhancing mail processing employees' knowledge of the types and quality of letters that can be barcoded through classroom and on-the-job training, (2) obtaining feedback from delivery unit managers to identify batches of letters that bypassed automation and developing ways to prevent similar batches of letters from bypassing automation in the future, and (3) working with local business mailers to increase their volume of automation-compatible letters.

Poor address quality hampers the Service's barcoding success; and, as customers succeed in barcoding more letters, this problem will be exacerbated because the remaining letters fed to the Service's optical character readers will be of lower quality and more difficult to successfully barcode. The remaining letters may have addresses that the Service's optical character readers cannot read due to factors such as poor print quality, style of type, or color or composition of the paper used to make the envelope. To increase barcoding, the Service recently completed the deployment of remote barcoding systems and optical character reader enhancements. One component of this system is a remote computer reader that uses advanced computer technology to read images of problem addresses and determine the appropriate barcode to be applied to the letter. Some of the optical character reader enhancements include updating the address recognition modules to read additional characters and dot-matrix print and installing wide-area barcode readers to locate and read a barcode virtually anywhere on an envelope. As these systems and enhancements become fully operational, the Service expects that its barcoding capability will improve.

Efforts to Increase DPS Letter Volume

The Service is also trying to achieve 70 to 85 percent of carriers' letters delivery sequenced, the percentage assumed in its decision analyses. However, Service officials told us that the Service must overcome various mail flow problems that have impeded increasing the number of delivery sequenced letters. They said that these mail flow problems include not capturing all letters that could have been delivery sequenced, underused mail processing resources, automated equipment not yet deployed, and barcode readability and accuracy problems.

In a 1996 report, the Inspection Service identified that mail processing plants were not capturing all of the letters that could be delivery sequenced because mail processing employees were not following standard operating procedures and proper mail flows. For example, employees misdirected letters to operations that bypassed automated equipment; or they did not run letters that were initially rejected a second time through automated equipment, which may have resulted in these letters not being delivery sequenced. The Inspection Service attributed these problems to supervisors not properly monitoring employee work habits and inadequate employee training. Also, the Inspection Service identified a lack of coordination between mail processing plants and delivery units to resolve DPS-related mail processing problems.

Service officials at headquarters and the field locations we visited identified other mail flow problems. The officials said that mail processing resources, such as automated equipment, were not always fully utilized. At the time of our review, some mail processing plants had not yet received scheduled deployments of remote barcode systems and optical character reader enhancements, which resulted in some plants not generating sufficient numbers of delivery sequenced letters. However, as of November 1997, all remote barcoding systems and optical character reader enhancements were deployed, which should help alleviate this problem. While deploying automated systems, equipment, and enhancements, the Service has reduced its number of mechanized letter sorting machines from about 850 in 1994 to 100 in the first quarter of fiscal year 1998. A Service official said that removing these machines increases the letter volume available to be processed on automated equipment, which leads to increased DPS volume. Also, the Service reported that plants were experiencing barcode readability or accuracy problems caused by factors such as envelope design, print quality, incorrect barcodes, or mechanical problems, which caused barcode sorters to reject more letters than expected.

At the locations we visited, Service officials have taken steps to determine the cause of these problems. For example, one district identified 100 DPS-candidate letters and then tracked the processing of these letters, which district officials believed should have arrived at delivery units in delivery sequence. Of the 100 letters, the officials found that only 72 arrived at the units in delivery sequence. The officials were attempting to identify the reason(s) why the 28 other letters did not arrive at the units in delivery sequence so they could take corrective action. At another district, local officials found that delivery units were not receiving about 5,000 to 10,000 letters early enough each morning for these letters to be delivery sequenced on the units' carrier sequence barcode sorters. The letters that were not delivery sequenced had to be manually sorted by carriers, which the Service said increased their office time and adversely affected DPS savings.

The Service has taken actions to address these mail flow problems. Some of the more significant actions include the establishment of DPS implementation teams to, among other things, serve as links between mail processing and delivery unit operations regarding DPS issues. District managers have scheduled regular meetings between mail processing and delivery unit managers to improve their communication and coordination, resolve problems, and increase DPS volumes. For example, in one district,

teams of mail processing and delivery unit managers have discussed operating goals, identified initiatives to achieve these goals, set joint targets for DPS percentages, and raised their percentages over the previous year. Service headquarters officials have developed a training course to familiarize mail processing employees with the new mail flows that remote barcoding systems create.

In addition, in 1994, about 23 million delivery points (i.e., apartments, offices, or suites) within multioccupancy buildings, which account for about 19 percent of the total deliveries, could not be delivery sequenced using the current barcoding rules. Since the 11-digit barcode enables the delivery sequencing of letters to the street address of multioccupancy buildings, letters with secondary address information such as apartment, office, or suite number require additional carrier handling to manually sort these letters to the appropriate units within the same building. As a result, DPS has not been implemented on many routes that have high densities of multioccupancy buildings in urban areas such as New York City and Chicago or other areas that have similar style addresses. For example, at a delivery unit we visited, DPS was not implemented on some of the unit's carrier routes due to the large number of apartment buildings and trailer parks that these routes served. When it initially implemented DPS, the Service deferred the delivery sequencing of letters addressed to units within multioccupancy buildings due to the complexity involved in interpreting secondary address information and because it believed that implementing DPS for these units would not be cost effective.

The Service now plans to revise its barcoding rules that business mailers must follow to receive the automation discount. The Service estimates that this change will enable the delivery sequencing of up to 95 percent of the apartments, offices, and suites in multioccupancy buildings in 1998 to 1999. To make the change to enable multioccupancy delivery sequencing, both the Service and mailers will, among other things, need to modify the software that they use to barcode letters. Also, mailers are to be required to update their address files with complete and accurate secondary address information. Although the Service has initiated efforts to implement the revised rules, actual implementation of these rules will depend upon whether mailers accept these rules and potential technical problems associated with these revisions can be resolved.

**Efforts to Improve Route
Adjustments and
Otherwise Improve Street
Efficiency**

The Service justified its investment in DPS on the basis that the automated sorting of letters in delivery sequence would reduce the time carriers would have to spend in the office manually sorting letters and increase the proportion of their time on the street actually delivering the mail. This increase in street time was to expand the size of carrier routes and ultimately reduce the number of routes that would be needed. The Service recognized that DPS would likely increase the time carriers needed to perform some operations on the street, which were formerly done in the office. However, the Service believed this increase would be minimal and that DPS would not otherwise have a significant adverse effect on carrier street efficiency—the number of deliveries carriers make per hour—and DPS savings.

**Decline in City Carrier Street
Efficiency Affects DPS Savings**

The Service has achieved in-office carrier workhour savings with DPS implementation. However, part of these in-office savings were offset by a nationwide decline in city carrier street efficiency. On DPS routes, the Service believes that the decline in street efficiency was (1) greater than it had anticipated from DPS work methods and (2) at least partially due to route adjustments that were less timely and accurate than expected. While the Service believes that other factors, not related to DPS, have primarily caused declining city carrier street efficiency, NALC officials believe that much of this decline is caused by DPS work methods. The Service has initiated efforts to improve the timeliness and accuracy of route adjustments, and address what it believes to be the causes of declining street efficiency.

In some cases, additional street time was needed to handle DPS mail during delivery. Service Headquarters officials said that DPS should have only a minor impact on carriers street time. According to field officials, carriers needed an additional 10 to 15 minutes to deliver DPS mail. The additional street time was needed because of the handling and preparing of DPS letters on the street, tasks that carriers formerly had done in the office. For example, prior to DPS, carriers sorted letters addressed to units within certain multioccupancy buildings in the office. But under DPS, they typically sort these letters while they are on the street. Therefore, some additional time was both accounted for in its projected DPS savings and factored into the carrier route adjustments made to implement DPS.

Despite the additional time that was factored in, the Service reported that while all 11 postal areas' in-office efficiencies increased during fiscal year 1997, their street efficiencies all decreased. This decline occurred on both DPS and non-DPS routes. In June 1997, the Service estimated that nationally

for every hour gained in office efficiency due to DPS, about 20 minutes were lost in street efficiency. The Service is concerned about the effects this unexpected decline in street efficiency is having on DPS savings. For example, the Service said that in-office savings are eroded to the extent that carrier street time is not efficiently used delivering mail. Further, the decrease in street efficiency reduces the opportunity to expand the size of DPS routes to offset the growth in deliveries as originally intended.

Timely and Accurate Route Adjustments Not Always Made

According to the Service, timely and accurate route adjustments have not always been made to city carrier routes to capture the in-office time DPS saves by increasing the number of deliveries. For example, one district manager told us that the lack of timely and accurate route adjustments has been one of the most significant problems affecting the district's ability to capture DPS savings. The Service attributes this problem to the lack of resources or expertise to perform route inspections, data problems, or lack of management initiative at the local level.

According to Service guidance, a route adjustment generally involves changing a carrier's route workload through proportionate increases or decreases in office and street time to produce an efficient route that has a workday as close to 8 hours as possible. The guidance allows route adjustments to be made with and without route inspections. Route adjustments based on a route inspection normally involve a manager observing the carrier's in-office and street work for 1 day or more, counting and recording the mail that the carrier handles, and recording the time the carrier uses to perform each function. Service officials said that route inspections are difficult to schedule and perform because these inspections require the skilled personnel who usually must be diverted from their normal duties and take about 30 hours to perform per route. Route adjustments made without route inspections are referred to as minor route adjustments. Service guidance allows managers to make route adjustments as often as necessary to, among other things, provide assistance or add deliveries. Managers make minor route adjustments using in-office and street-time data, numbers of possible deliveries, and the latest route inspection data.

The lack of route adjustments prior to DPS implementation was considered a problem. Service officials said that from about 1975 through 1990, the Service performed few route inspections due largely to the unavailability of staff resources. In commenting on our draft report, the President of NAPS did not agree that the lack of resources was the reason why few route inspections were done. Rather, he believed that the Service curtailed route

inspections for two reasons. First, multiple position letter sorting machines were being heavily used at that time to process letters and relied on the clerks who operated these machines to memorize carrier-route schemes, which contained a significant amount of address information. Route inspections led to route adjustments and scheme changes. These changes required clerks to relearn portions of the schemes, which were both complicated and expensive. Second, scheme changes were also expensive for business customers who presorted their mail to bypass the Service's mail processing operations.

In preparation for DPS implementation in 1993, the Service and NALC agreed that initial route adjustments would be based on current route inspection data, which were generally collected within the previous 18 months. According to the agreement, route inspections were to be performed on each route to provide data on city carriers' in-office and street performance and mail volume to prepare for DPS implementation in a delivery zone. However, as DPS implementation proceeded, the Service said that field offices had continuous difficulty performing and funding the required route inspections. The Service acted to address this problem. According to Service officials, in 1995, the Service made funds available to its field offices to perform about 50,000 route inspections, provided more training to managers on performing inspections, and allowed field offices to hire contractors to perform inspections.

Although the required inspections were eventually performed and route adjustments were made to implement DPS, according to Service officials, some route adjustments were not accurate. Service officials also said that DPS route adjustments that were made did not always result in accurate assessments of workload requirements because the adjustments were based on potential in-office savings before carriers had experience with DPS. To illustrate this situation, the Service recently gathered preliminary data on many routes, indicating that DPS route adjustments had not added enough deliveries to routes to increase street time and compensate for reductions in office time. A Service official said that these routes with insufficient workloads contribute to the decline in street efficiency as carriers naturally use all the time they have available in delivering the mail.

According to the Service, once DPS is implemented within a delivery unit, minor route adjustments are critical in capturing potential DPS savings because as DPS volume increases, route workload should be adjusted by removing office time and proportionally increasing street time by adding deliveries. Area, district, and local managers said that whenever possible,

**The Service Believes That
Other Factors Besides Route
Adjustments Affect City
Carriers' Street Efficiency**

delivery unit managers should take the initiative to make minor route adjustments, which can be made without a route inspection. If this is not done, they said that the benefit of the office savings can evaporate as carriers expand their street time to fill their 8-hour workdays.

The Service believes that several factors in addition to route adjustments have contributed to the decline in city carrier street efficiency (the number of deliveries carriers make per hour). However, the Service does not believe that DPS work methods have caused a decline in city carrier street efficiency because the additional time needed to handle and prepare DPS letters on the street was to be factored in when routes were adjusted to implement DPS. According to Service officials, part of the decline in city carrier street efficiency is due to the work habits of many city carriers that have no direct connection with DPS. The officials believe that many carriers are not using the most efficient work methods and need closer supervision. The officials do believe, however, that DPS has had an indirect effect on the decline in street efficiency. In their view, some city carriers, who did not fully support DPS, slowed down their delivery or did not take advantage of opportunities to increase efficiency afforded them by DPS. For example, some city carriers did not use the sorting method that would make mail easier to carry on their individual routes. Further, the officials believe that factors unrelated to carrier work habits, such as increases in the volume of priority packages and longer driving distances to high growth areas, also are contributing to the decline in carrier street efficiency.

However, NALC officials do not fully agree with the Service on the extent to which carrier work habits contribute to declining street efficiency. Further, NALC officials believe that much of the decline is attributable to DPS work methods. NALC officials and many city carriers believe that street efficiency is being adversely affected by DPS work methods, such as not being able to manually sort DPS mail in the office and the additional time needed to handle the extra bundle associated with DPS, which slows city carrier delivery. The fact that city carrier street efficiency is declining on both DPS and non-DPS city carrier routes would suggest that factors other than DPS are contributing to the decline. However, definitive data on the causes of the decline are not available to determine whether DPS work methods are adversely affecting city carrier street efficiency greater than the Service initially anticipated.

Notwithstanding the NALC's views, the Service has several efforts under way to deal with city carrier street efficiency. These efforts are intended to

increase the street supervision and monitoring of city carriers to ensure that carriers deliver mail at an appropriate pace and do not waste time during delivery. Service officials said that to improve supervision, each accounting period, headquarters delivery managers prepared a list of each area's post offices with the lowest street efficiency and requested that these be targeted for management attention. The officials also requested that area and district managers implement street management programs to, among other things, identify the most inefficient carriers at each delivery unit and develop corrective action plans. In 1995, the Service initiated the enhanced street performance program to improve delivery service through the use of data collection and communication technologies on the street. Among other benefits, these technologies are to assist in the overall management of street performance for consistency of delivery times and verification of carrier street times. One of the technologies being used is a satellite monitoring system installed in carriers' delivery vehicles to enable supervisors to track carriers' locations. In 1996, the Service began testing this program at 11 locations.

The Service also began the Delivery Redesign initiative in 1995 to improve delivery efficiency and city carriers' work environment. One aspect of the initiative is to provide greater incentives for city carriers to work efficiently by changing the way they are compensated. However, the Service is to obtain NALC's agreement to test compensation alternatives, and NALC has not yet agreed to a test because it considers compensation an issue that is better addressed in the collective bargaining process. Other aspects of the initiative include revising the city carrier delivery process and developing new performance standards for city carriers. According to Service officials, under article 34 of the National Agreement, the Service has the authority to test these changes. Accordingly, in 1997, the Service began testing two approaches:

- city carrier delivery process changes, such as a team delivery concept that separates the manual sorting and delivering of mail among a group of city carriers. Under this concept, carriers would elect to either sort the mail or deliver it, according to their abilities and preference; and
- new carrier performance standards that consist of standard time allowances for city carrier office and street activities. The new standards would be used to structure routes and monitor city carrier performance.

The Service is conducting these tests at 19 locations and expects them to be completed by the spring of 1999.

**Many City Carriers Want to
Manually Sort DPS Letters**

Like rural carriers, city carriers said that they want the option to manually sort their DPS letters with non-DPS letters and flats while in the office. Of the 111 city carriers we interviewed 57, or about 51 percent, said that they were satisfied with the concept of less sorting, which DPS provides. However, 86 city carriers, or about 77 percent, said that they believed not being allowed to sort DPS letters in the office decreased their street efficiency.

NALC officials said that in some situations, especially where DPS volume is no higher than 50 percent, city carriers want to sort DPS letters in the office to improve street efficiency by eliminating the extra bundle and reducing sorting and handling of undeliverable letters while on the street. These officials said that on routes with large numbers of multioccupancy deliveries, carriers' efficiency was also reduced by having to manually sequence the DPS letters for individual apartments or suites while on the street. These officials also said that substitute carriers, who are not as familiar with the customers and addresses as are the regular carriers on the route, have more of a tendency to incorrectly deliver DPS letters because they do not easily recognize undeliverable letters during delivery. For example, the substitute carrier might not recognize that the addressee on some DPS letters has moved.

Service officials said that they believed efficiency would decrease overall if city carriers were allowed to sort DPS letters while in the office. The officials said that they believed many city carriers would not sort DPS letters efficiently because the existing standard for manually sorting random letters requires city carriers to sort only 18 letters per minute and 8 flats per minute. While the officials recognize that many carriers exceed these standards at their own discretion, they are not required to do so. The officials also said that they do not believe DPS should make delivery more difficult for carriers, and if carriers use the most efficient sorting method for their routes and follow standard delivery procedures, they should not have problems.

Compared with city carriers, rural carriers are more satisfied with DPS because they are allowed to manually sort DPS letters in the office. Of the 31 rural carriers we interviewed, 29 said that they were satisfied with DPS primarily because sequenced letters are easier and faster to sort or because they like having less sorting to do. However, seven of the rural carriers said that they believed DPS had decreased their street efficiency. Also, the President of the Rural Carriers said that his members were concerned about the reduction in their salaries due to DPS but that the

**Appendix II
Operational Issues Affecting Achievement of
Fiscal Year 1998 DPS Goals**

Service has tried to add deliveries to the affected routes to compensate for the office time eliminated.

Labor-Management Relations Issues Affecting Achievement of Fiscal Year 1998 DPS Goals

In addition to operational issues, the Service is also addressing those concerning labor-management relations, which also impede its efforts to achieve DPS goals and benchmarks and maximize savings. These issues include poor working relationships with NALC over DPS implementation and insufficient city carrier support for DPS work methods. DPS implementation involved three areas of contention: (1) the work methods that should be used by city carriers to implement DPS; (2) the manner in which the Service implemented DPS, viewed by NALC as inconsistent with the 1992 joint agreements; and (3) DPS' effect on city carrier street efficiency. Many of the city carriers' disagreements with DPS resulted in grievances, some of which led to national arbitration cases. These issues and the Postal Service's efforts to address them are discussed as follows.

National Arbitration Cases Illustrate Labor-Management Relations Problems

In September 1992, the Service and NALC jointly reached several agreements to resolve past disputes and implement DPS on city carrier routes. However, some of the 1992 joint agreements became problematic with actual implementation of DPS, and the parties were unable to reach agreement on solutions. The Service subsequently issued instructions to the field, which NALC believed were inconsistent with the 1992 joint agreements. Differences in opinion over the instructions, as well as the meaning of the work methods and transitional employee agreements, generated many grievances at the national and local levels.

Although most grievances were resolved through settlement, three went to national level arbitration. During 1996, a national arbitrator ruled on one of the cases and found in favor of the Service. In 1997, another national arbitrator ruled in favor of NALC on the two remaining cases. The arbitrator determined that the Service had violated either provisions of existing labor agreements or the 1992 joint agreements and instructed the Service and NALC to jointly determine alternative methods to resolve their differences. The parties are conducting a study to address the issues involved in one case and are working together to reach agreement on how to proceed to resolve the other case. In addition, to improve their overall working relationship, on October 20, 1997, the Service and NALC signed an agreement to test a revised dispute resolution process aimed at narrowing areas of dispute and effectively and constructively resolving disagreements.

1992 Joint Agreements Set
Stage for DPS

In 1992, the Service and NALC published six Memoranda of Understanding, or joint agreements, which were to resolve past disputes and set a joint course for the future.¹⁸ The six agreements are summarized as follows:

- Case Configuration - Letter Size Mail. Defined letter-sized mail and authorized the use of four- or five-shelf letter cases and route inspections based on these cases. (A letter case is a piece of equipment that contains separations or pigeonholes into which carriers manually sort letters and other mail (e.g., magazines and papers).)
- Hempstead Resolution. Remanded all pending grievances and selected route adjustments to the local parties for resolution and provided guidance for resolving the grievances. This resolution was based on a national level arbitrator's finding that the Service improperly established city routes, which required more than 8 hours to complete in anticipation of future DPS route adjustments that would reduce these routes to 8 hours.
- The Future - Unilateral Process. Provided procedures for management to plan, estimate the impact of, and implement DPS-related route adjustments.
- The Future - X-Route Process. Provided procedures as an alternative to the unilateral process for local parties to jointly plan to adjust and realign identified routes when the delivery unit had achieved the final DPS target volume.
- Delivery Point Sequencing Work Methods. Authorized two methods carriers are to use to sort non-DPS letters and "flats" (large envelopes, magazines, and catalogs), and bundle them for delivery.¹⁹
- Transitional Employees. Resolved past disagreements regarding the hiring and use of transitional employees within the carrier craft.

The agreements stated that successful transition to DPS is the responsibility of local postal managers and union representatives to collaboratively resolve problems. The Service and NALC jointly provided DPS training to field units to prepare carriers and local managers for implementation. In an October 5, 1995, instruction to area vice presidents, the Service reiterated the importance of field compliance with headquarters' DPS policies and the joint agreements. Managers were cautioned not to enter into local labor agreements that violated the joint agreements or Service policies. However, NALC officials said and the Postal Inspection Service reported that as DPS implementation proceeded, some local agreements and management decisions violated national agreements

¹⁸Building Our Future by Working Together. USPS-NALC Joint Training Guide. Sept. 1992 Memoranda of Understanding.

¹⁹Carriers form bundles by banding or tying together packages of mail to be handled as one unit.

Differences Arose Over Joint Agreements and the Service's Implementation Instructions

and policies, causing large numbers of local grievances to be filed by carriers.

As the Service gained experience with DPS in 1993 and DPS volume remained low, the parties determined that certain aspects of these agreements became problematic; such as, rules for establishing DPS target volumes to trigger implementation and route adjustments. Although the parties agreed they should update the agreements, they were unable to reach agreement on changes. As a result, in 1994, the Service issued DPS implementation instructions to the field that NALC believed violated certain aspects of the joint agreements. In a March 1994 memorandum to area and district managers, a headquarters senior vice president wrote:

"As you are aware, we have been unable to reach agreement with the NALC on updating the Memorandums of Understanding concerning DPS implementation. Attached . . . are instructions which explain how to move forward on DPS . . . which are effective immediately."

Headquarters officials, in a subsequent plan concerning DPS implementation, stated that failure to gain a new agreement with the NALC had left delivery units in various stages of development in their plans to capture savings. For example, DPS volumes that remained below the targets set by many units had delayed implementation and allowed carriers to continue sorting DPS letters, delaying capture of workhour savings.

The Service said that its instructions to field units mirrored the 1992 joint agreements. One of the instructions advised managers to base calculations of DPS volume for purposes of meeting the targets on weekly averages. The Service believed that this aspect of the joint agreements was not negotiated and was left open for managerial discretion. However, NALC contended that the joint agreements had been reached based on an understanding that target volumes would have to be met for 12 consecutive delivery days. Therefore, NALC said that the Service violated the joint agreements by unilaterally advising its managers to use a method that the parties had not agreed upon.

Another disagreement arose when NALC challenged the Service's interpretation of a 1992 joint agreement involving the DPS work methods carriers were expected to use. Carriers traditionally have used one of several sorting methods to prepare mail for delivery, resulting in either all the mail sorted together and carried as one bundle, or letters sorted separately from larger pieces, called flats (e.g., magazines), and carried as

two bundles. Factors—like number and type of deliveries, such as apartments or commercial buildings or amount of walking versus driving between deliveries—can influence which sorting method is chosen. The Service's DPS instructions required carriers to pick up trays of DPS letters and load them into their vehicles for delivery along with their trays of manually sorted mail. During delivery, carriers select mail from the trays of letters and flats at each delivery point or select and carry letters and flats in their hand as separate bundles while walking portions of the route. The DPS-sorting methods authorized in the joint agreements result in either two or three bundles of mail, in addition to certain types of unaddressed advertising mail delivered to every address. The following are the two authorized DPS sorting methods:

- Sort non-DPS letters with the flats into the case. Pull down from the case and carry the combined flats/non-DPS letters as one bundle and DPS letters as a second bundle.
- Sort into and pull down from the case non-DPS letters separately from the flats, and carry DPS as a third bundle.

Under the joint agreements, selection of the most efficient method for each route was to be made jointly by local managers and NALC representatives. For example, the parties could agree that carrying two bundles was more efficient on park and loop routes, which require walking between deliveries, or that a third bundle is more efficient for motorized curbside delivery. The Service modeled carrier efficiency using different methods and at different DPS volumes and found that the two-bundle method generally was the most efficient to use with relatively high DPS volume. However, NALC and the Service disagreed about the relative efficiency of the methods and their impact on carriers.

NALC officials told us that they know automation including DPS is inevitable and necessary to increase postal efficiency. However, the NALC officials disagreed with the Service's proceeding to implement DPS using the revised instructions to the field that NALC believe violated the joint agreements. NALC officials also said that both the overly optimistic expectations of high DPS volumes early in the program that did not materialize as well as managers' efforts to implement DPS and capture savings resulted in lasting disappointment and frustration among some carriers. However, they agreed with Service managers that some of the carriers concerns regarding DPS will diminish if their DPS volume approaches higher percentages of total letters, which the Service expects to achieve.

Status of Three Arbitration
Cases

Following is a brief summary of two DPS national arbitration cases related to the 1992 joint agreements and one national arbitration case concerning the Service's subsequent instructions on calculating DPS volumes.

- In one case, an arbitrator ruled that, as NALC contended, unaddressed advertising mail, a type of flat mail, constitutes a fourth bundle for carriers who have elected to use the three-bundle sorting method on park and loop routes. The parties' current labor agreement limits to three, the number of bundles such carriers can be required to carry. The Service had maintained that if unaddressed flats were carried behind the flats bundle, it did not create a fourth bundle. The arbitrator required the parties to reach agreement on an alternative to the authorized three-bundle method when unaddressed flats are present on the affected routes. The parties agreed to conduct a joint study of the DPS work methods to determine which is the most efficient method and how to best handle unaddressed flats. The parties agreed to complete the joint study by April 30, 1998.
- In a second case, the arbitrator decided that the Service had not violated the agreements on the use of transitional employees. NALC believed that a ceiling existed on the number of hours per week these transitional employees could work and that the Service had ignored the ceiling. NALC also believed that these employees were hired into a particular delivery unit and had been improperly reassigned to work in another unit. The Service maintained that there was no ceiling on workhours once transitional employees had been properly hired, and there was no prohibition against reassigning them as needed.
- In a third case, an arbitrator concluded that the Service had violated the 1992 joint agreements by not obtaining NALC's concurrence on revising the method for calculating DPS volumes that the Service advised managers to use in its DPS implementation instructions. The Service began using average weekly—rather than daily—DPS volume because certain fluctuations in daily volume made it impossible to reach DPS percentage targets every day. However, the arbitrator also found that the daily volume method in the original agreement was counter to achieving DPS savings and instructed the parties to work together to determine an alternative method. In the interim, the Service was allowed to use its averaging method. As of March 1998, the parties had not yet reached agreement on an alternative method for calculating DPS volume.

Many City Carriers Raised
Concerns About DPS Work
Methods

In addition to their concerns about the Service's noncompliance with national NALC-Service labor agreements, many city letter carriers said that they believe DPS work methods—particularly not being able to manually

sort DPS letters to (1) combine them with the non-DPS bundle and (2) identify DPS sort errors and undeliverable letters—adversely affected their efficiency and, in some cases, service to their customers. NALC officials agreed with city carriers that the additional bundle of letters created by DPS and the single bundle made up of different sized mail pieces can be awkward for carriers to handle during delivery. Service officials we contacted, however, believe the different work methods are necessary to capture DPS savings and should have only minimal impact on carriers' ability to deliver mail. The officials do not believe the concerns raised by carriers represent a significant adverse effect on customer service. However, rural carriers we interviewed were more satisfied with DPS work methods than were city carriers because rural carriers were allowed to manually sort DPS letters and combine them with non-DPS mail before leaving the office to deliver the mail.

In commenting on our draft report, the President of NAPS said that he believed city carriers' concerns about DPS work methods are greatly exaggerated because carriers have always been required to check addresses on the mail between delivery stops to identify mail that is undeliverable. Therefore, checking DPS letters to find undeliverables should not be much different from the work methods used prior to DPS. The President said that while carrying more than two bundles of mail has some detrimental effect on carriers' ability to deliver mail, some carriers are using DPS as an excuse to extend their street time, delay prompt return to the office, and thus avoid having to perform additional work until their 8-hour day ends.

From a letter carrier's standpoint, an important advantage of manually sorting mail is to identify mail that cannot be delivered. Carriers historically take pride in identifying and redirecting such mail for further processing before leaving the office to begin delivery, with the knowledge that they will deliver all the mail they take to the street each day. Since city carriers must take DPS letters to the street without sorting or inspecting them, they must identify and remove any undeliverable letters while making deliveries.

DPS Sort Errors

Although managers at the delivery units we visited did not know the number of DPS sort errors carriers found each day, they said that errors occur because of incorrect addresses, mechanical problems, or human error. Most carriers we interviewed said that they were concerned about DPS sort errors and their effect on street efficiency and service to customers. However, Service officials said that while some problems do

occur, they believe only a small percentage of DPS letters experience sort accuracy problems. Overall officials believed sort accuracy was acceptable. While the Service does not routinely collect nationwide data on DPS sort errors, the units we visited were starting to collect data on sort errors on a daily basis.

Service and NALC officials we contacted agreed that DPS technology is highly effective but that errors sometimes occur due to incorrect addresses, mechanical problems, or employee error. Carriers said that they usually get some sort errors. Sort accuracy was the concern most often cited by carriers we interviewed; 55 carriers, or 39 percent of those we interviewed, said that finding sort errors during delivery was a problem. The number and type of sort errors can vary from day to day; and of the 142 carriers we interviewed, 125, 131, and 136 carriers, respectively, estimated they received an average of fewer than 10 letters a day missorted, missequenced, and missent. However, the remaining carriers estimated that they received 11 or more letters a day in at least 1 of the 3 sort-error categories. For example, 14, 9, and 5 carriers estimated that they received an average of 11 to 20 letters each day missorted, missequenced, and missent, respectively. Although it appears that sort errors represented a small proportion of carriers total DPS letters, DPS sort errors might cause carriers to (1) backtrack on their routes to deliver missequenced letters or (2) bring letters back to the office at the end of the day if they cannot be delivered. NALC officials and the carriers said that service to their customers is sometimes delayed by at least 1 day if these letters must be reprocessed for delivery.

After the initial 98-percent accuracy threshold was met on DPS routes, there was no formal requirement to track subsequent accuracy; and the Service does not collect nationwide data on DPS-sort accuracy. Rather, it relies on carriers to report sort errors each day so that delivery units can coordinate with mail processing operations to correct them. NALC officials said that errors sometimes occurred despite carriers' and delivery units' reporting them. Some of the units we visited were beginning to record the number and category of DPS-sort errors that carriers reported each day, so that corrective action could be taken. One district had analyzed these data collected over several weeks and found less than 1 percent of DPS-sort errors. These errors were often letters missorted to the wrong route caused by mechanical or maintenance problems or necessary changes to computerized sort plans for routes not having been entered.

Forwarded Undeliverable
Letters

Carriers often receive DPS letters that are not deliverable. Undeliverable mail includes forwards²⁰ resulting from change-of-address, vacation holds, and mail sorted incorrectly to the wrong route. The Service receives about 40 million change-of-address requests each year and forwards customers' mail to their new addresses for 12 months. This results in carriers receiving letters for customers who no longer live at addresses on their routes, and these letters must then be reprocessed for delivery to each customer's new address. The units we visited did not track the number of undeliverable DPS letters carriers brought back to the office each day. The carriers we interviewed said that the number varied from day to day. Of 134 carriers who estimated their average number of undeliverable DPS letters, 60 carriers, or about 45 percent, estimated they had up to 25 undeliverable letters a day; 41 carriers, or about 30 percent, estimated having between 26 and 50 letters a day; and 33 carriers, or 25 percent, estimated having more than 50 such letters a day, which includes 9 carriers, or 7 percent, having more than 100 letters a day.

We found that opinions among Service managers, NALC officials, and carriers differed about the impact that undeliverable letters in carriers' DPS mail have on service. For example, NALC officials said that they and city carriers believed in some cases DPS was delaying delivery of forwarded letters by at least 1 day. NALC officials attributed the delay to the fact that carriers were returning to the office too late in the day for their forwarded letters to be transported to the Service's Computerized Forwarding System (CFS).²¹ Service delivery managers did not believe DPS delayed service and pointed out that the First-Class on-time delivery scores—the Service's indicator of quality of service to customers—are now higher than they have been in the past.²² While there was general agreement at headquarters and field units that forwarded letters should be transported to CFS the same day carriers received them, this was not the case at two of the six delivery units we visited because carriers returned to the office from their routes after that day's final dispatch of forwarded letters to the CFS.

²⁰Mail that is redirected to the intended recipient's new delivery address.

²¹Each day, delivery units send CFS staff data on change-of-addresses and mail to be forwarded. CFS staff key new address information into the National Change-of-Address database and forward the mail to the appropriate delivery unit for delivery.

²²The External First-Class Mail Measurement System is used to estimate the percentage of first-class mail that is delivered on time according to Postal Service standards. An independent contractor, Price Waterhouse, conducts test mailings in 96 cities to measure the speed of first-class mail delivery.

NALC and carrier perception that a 1-day delay in forwarding letters constituted delayed service to customers was not shared by Service headquarters delivery and forwarding system managers. The Service said that its First-Class mail delivery standards for 1-, 2-, or 3-day delivery do not technically apply to forwarded letters because they must be reprocessed for delivery. Furthermore, the standard for processing forwards is that CFS staff is to reprocess each forwarded mail piece and send it to the appropriate delivery unit within 24 hours, beginning when they receive it from the original delivery unit.

The Service has a system whereby carriers can request that data be entered into sort programs to have certain letters, including forwards, held out of DPS so they can be identified and rerouted before delivery. Of the six delivery units we visited, two allowed carriers to hold out forwards from DPS for 30 days; one allowed forwards to be held out for 2 weeks; one allowed only forwards for temporary moves to be held out, and two did not allow any forwards to be held out of DPS. For example, one delivery unit manager said that his unit did not hold out forwards because the data entry process to do so is difficult; updating sort plans is complicated; and at his unit, managers believe carriers can more efficiently identify forwards while on the street. Likewise, headquarters delivery managers said that they did not believe forwards should necessarily be held out of carriers' DPS mail and that carriers should adjust to handling forwards during delivery. In contrast, NALC officials said that carriers do not like to handle forwards while on the street and then bring them back to the office for reprocessing. NALC officials said that if the Service could develop an automated system to identify and remove change-of-address mail so that it is not included with carriers' DPS mail for delivery, most of the problems with DPS would be eliminated. However, these officials recognize that the Service, although attempting to do so, has not yet developed such a system.

Comments From the Postal Service

MARVIN RUNYON
POSTMASTER GENERAL, CEO



March 24, 1998

Mr. Bernard L. Ungar
Director, Government Business
Operations Issues
United States General Accounting Office
Washington, DC 20548-0001

Dear Mr. Ungar:

Thank you for providing us an opportunity to review the draft report entitled, U.S. Postal Service: Progress Made in Implementing Automated Letter Sequencing But Some Issues Remain.

Your report gives an accurate summary of our letter mail automation programs. These programs have had a substantial positive effect on workhours and the financial performance of the Postal Service while maintaining quality service to our customers. Delivery Point Sequencing (DPS) has been a major contributor to that success. Currently, there are 131,000 city delivery routes and 26,000 rural routes that are each receiving an average of over a thousand letters per day already in delivery order sequence. Over the past four years, DPS has been credited with a workhour avoidance of 22.5 million hours. In the absence of DPS, these hours would have been needed to handle the increasing letter mail volume and number of delivery points. This workhour avoidance translates into \$539 million in carrier salaries. Overall, the DPS program has been even more successful in reducing workhours than we had anticipated. In Fiscal Year 1996, we were able to reduce a million workhours more than we had originally planned. Last year we reduced workhours by 4.8 million more than we had projected.

Over the past few years, the Postal Service and the National Association of Letter Carriers (NALC) have had numerous disagreements regarding DPS implementation. I am pleased to report that those disputes have been resolved, or are in the process of being resolved. Further, in the past year, the Postal Service and the NALC have made significant strides toward improving our labor-management relationships. We are presently engaged in a number of cooperative ventures, such as testing a revised dispute resolution process, the joint issuance of a contract interpretation manual, and the review and resolution of pending grievances. We expect these ventures to produce long-lasting benefits for labor-management relationships at all levels of the organization.

If you wish to discuss any of these comments, my staff is available at your convenience.

Best regards,

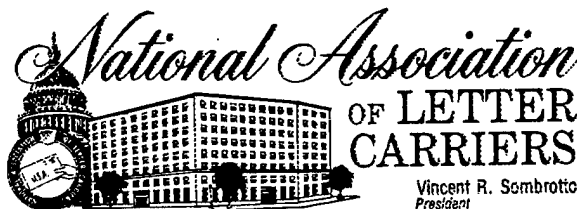
A handwritten signature in dark ink, appearing to read "Marvin Runyon", written over a horizontal line.

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-0010
202-268-2520
FAX: 202-268-4060

Comments From the National Association of Letter Carriers

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Francis J. Conners
Executive Vice President
William H. Young
Vice President
William R. Yates
Secretary-Treasurer
James G. Souza, Jr.
Asst. Secretary-Treasurer
Jim Edgemon
Director, City Delivery
William M. Dunn, Jr.
Director, Safety & Health



100 Indiana Avenue, N.W., Washington, D.C. 20001-2144
Telephone: (202) 393-4695

Michael J. O'Connor
Director, Life Insurance
Thomas H. Young Jr.
Director, Health Insurance
James E. Worsham
Director of Retired Members
BOARD OF TRUSTEES
John W. DiTollo, Chm.
Larry Brown
Jane E. Broendel

March 13, 1998

BY HAND and U.S. MAIL

Bernard L. Ungar
Director, Government Business
Operations Issues
United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Ungar:

This will respond to your February 18, 1998 request for comments upon the draft report entitled "U.S. Postal Service: Progress Made In Implementing Automated Letter Sequencing But Some Issues Remain."

Once again,¹ we are asked to respond to a draft GAO Report regarding the United States Postal Service that we believe is fundamentally flawed.

The draft is little more than a bland repackaging of postal management's feeble excuses for missing its schedule for implementation of DPS by at least three years (and still counting), and for the failure of DPS to produce the savings projected by management as the basis for this multi-billion dollar investment. Particularly egregious is GAO's repetition of base slanders against the letter carrier craft--outrageous scapegoating by incompetent managers cloaked with anonymity by

¹See our responses of February 9, 1996 regarding Final Offer Collective Bargaining; January 9, 1997 regarding Progress on Initiatives; July 17, 1997 regarding "Little Progress Made. . .".

AFFILIATED WITH | AMERICAN FEDERATION OF LABOR--CONGRESS OF INDUSTRIAL ORGANIZATIONS
POSTAL TELEPHONE TELEGRAPH INTERNATIONAL

See pp. 28-29.

See comment 1.

Appendix V
Comments From the National Association of
Letter Carriers

Mr. Bernard L. Ungar
March 13, 1998
Page 2

See comment 2.

the Draft. We also find puzzling, at best, GAO's casual acceptance of the fact that USPS has repeatedly been found guilty by independent arbitrators of violations of contract in connection with the introduction and implementation of DPS-- compounded by the inane assertion that it was a "National arbitration decision that caused a delay in the Service achieving DPS work-hour reductions." Does GAO not grasp the fundamental concept that it was USPS' violation of the contract that was the effective cause of delay? That the arbitrator provides a remedy for violations of contract--and that a remedy would not be necessary if management did not violate the contract in the first place?

See comment 3.

We also find it strange that a report process purporting to measure the progress of one of the most expensive, ambitious and far reaching programs of the modern Postal Service: (a) relies upon management's own data (historically and repeatedly flawed) with no attempt at verification (p.9); (b) reflects interviews of only 111 (out of 240,000) city letter carriers (for five to ten minutes) in a total of ten zones (out of 7,600) receiving DPS mail, and reflects only two instances of carriers being accompanied on their routes. The Report generously acknowledges that the selected sites and carriers are not statistically representative (p.35). In fact, since carriers and carrier performance is at the very heart of the inquiry, the extent of carrier involvement is patently, and woefully, inadequate.

See pp. 28-29.

In general, the combination of reliance upon unverified management data, a pitifully inadequate field inquiry, and a tendency to repeat as gospel unverified management finger-pointing does not present a credible basis for a meaningful analysis.

See p. 27.

Before addressing some of the more glaring specific inadequacies of the draft report, it should be noted that NALC has supported the necessity for, and concept of, DPS since it was first announced. This support was unconditional, notwithstanding our knowledge that the basic rationale for the program was the reduction of letter carrier hours worked in the office, and a consequent reduction in the number of letter carriers who would otherwise be employed in our craft. We supported the project because we believed that the long term viability of the Postal Service, and therefore the long term job security and standards of employment of our craft, would be enhanced by the successful introduction of automation, with appropriate consideration for the legitimate interests of employees.

Mr. Bernard L. Ungar
March 13, 1998
Page 3

Therefore, our conclusions--that USPS has mismanaged the introduction of DPS and that GAO has turned a blind eye to reality--are stated more in sorrow than in anger.

We turn now to some of the more obvious of the Service's failures and GAO's failure to come to grips with them.

1. OFFICE TIME SAVINGS

- a. Assumptions USPS projected that DPS would lead to a decrease in office time from 4 hours to 2 hours, thus increasing carrier street time from 4 to 6 hours. GAO baldly, incorrectly, and without foundation, asserts that DPS should not cause a decline in street efficiency (pp. 34-35).
- b. Reality USPS has "lowered its expectation of in-office savings to 80 minutes per day" (p. 15), fully 33% less than projected. Even those in-office carrier work savings "were offset by a nationwide decline in city carrier street efficiency" (p. 42). USPS estimates that "for every hour gained in office efficiency due to DPS, about 20 minutes were lost in street efficiency" (p. 43). Thus, if the office savings is 80 minutes per day, the loss in street efficiency is 27 minutes per day, for a net savings of 53 minutes, only 45% of the originally projected 2 hours.

2. EXTENT OF DPS

- a. Assumption USPS expected 70 to 85% of letters to reach the carrier in delivery point sequence (p. 11).
- b. Reality Only "about half" such letters are in fact being received; indeed, the Postal Service does not have complete data to measure total DPS volume or percentage on the routes" (p.11).

3. FY 94-97 WORK HOUR REDUCTION: DPS RELATED?

- a. Assumption As noted above, USPS lacks data regarding DPS volume or percentage on routes, but "Service officials . . . believe the work-hour reductions are due to DPS because there is no other program that could account for them" (p.22).
- b. Reality The shabbiness of the assumption is revealed in the next two sentences of the Draft, which records that one delivery unit visited by GAO which was not achieving its projected DPS work-hour savings, had

See comment 4.

Now on p. 36.

Now on p. 14.

Now on p. 9.

Now on p. 9.

Now on p. 20.

Mr. Bernard L. Ungar
March 13, 1998
Page 4

Now on pp. 20-21.

increased its savings "By implementing suggestions made by carriers for changes, not related to DPS, that would make their jobs easier" (p. 22).

It should be noted at this point that one of the major shortcomings in the DPS planning and implementation scheme repeatedly articulated by NALC was USPS' insistence upon proceeding unilaterally and autocratically, ignoring NALC's offer of cooperation and jointness, and, in addition, violating the Contract, engendering grievances, and leaving NALC no alternative but to vindicate its rights in arbitration.

4. DPS IMPACT ON SERVICE

a. USPS Assertion USPS officials "... do not believe the concerns raised by carriers [regarding DPS' adverse impact upon their efficiency and service to customers] represent a significant adverse effect on customer service" (p. 58). Curiously, however, the Service does not collect nationwide data on DPS-sort accuracy.

b. Reality The gap between headquarters' assumptions and boilerplate assurances, and the real day-to-day circumstances in the field, are of critical significance to all members of the postal community. While the draft, in general, routinely reports management's statements at face value, there is at least one revealing exception which, while limited, we suggest should cause GAO to stop and consider whether, in general, a more critical eye should be turned to the Service's data and representations.

"While there was general agreement at headquarters and at area and district offices that forwarded letters should be transported to CFS the same day carriers received them, this was not the case at two of the six delivery units we visited because carriers returned to the office from their routes after that day's final dispatch of forwarded letters to the CFS" (pp. 61-62).

The problem revealed here is systemic. At three levels of management (headquarters, area and district) management believed something to be the case. In fact, at one-third of the units visited by GAO, it was not the case. At best, management's erroneous belief was based on their assumption that their "plan" was capable of implementation and was in fact being implemented. But, in the real world neither was the case.

Now on p. 54.

Now on p. 56.

Appendix V
Comments From the National Association of
Letter Carriers

Mr. Bernard L. Ungar
March 13, 1998
Page 5

Unfortunately, the litany could go on and on. But, to what purpose?

When USPS announced its DPS program to NALC, and projected implementation in FY 95, NALC told USPS it was impossible and it would be lucky if implemented by 1998.

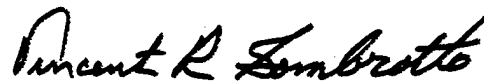
When USPS insisted upon major route restructuring in anticipation of DPS implementation, NALC told USPS it was making a major mistake with seriously negative impact to follow in service degradation and negative employee reaction.

When USPS insisted upon route restructuring based upon a reduction of 2 hours in office time, NALC told USPS it was significantly in error, and the subsequent undoing of the error would compound service problems and negative employee impact.

When USPS abandoned its initial effort at joint agreements and employee involvement in the process, and determined to violate the contract and mutual agreements and to proceed unilaterally, NALC told USPS it was making serious errors.

This is not an exercise in "I told you so." This is an effort to urge GAO to confront the reality that USPS has seriously jeopardized this all-important project by repeated arrogance, inefficiency and self-deception, and not merely to set forth yet another "he said, she said" report to be put on yet another shelf.

Very truly yours,



Vincent Sombrotto
President
National Association of Letter Carriers

GAO Comments

1. We do not agree with NALC's assessment that our report is a repackaging of postal management's excuses for missing its DPS implementation schedule. As requested by the Subcommittee, the report describes the status of the Service's efforts to implement DPS, including slippages and reasons for them. The report discusses the Service's overly optimistic DPS expectations, the changes the Service made to its goals and benchmarks for completion of the program, the current shortfalls compared with the Service's fiscal year 1998 goals, and the issues the Service will need to address to achieve the goals.

NALC also commented that regarding specific statements in the report attributed to Service managers, our review lacked critical scrutiny of the managers' opinions, with which NALC does not agree. These statements concerned the Service's assertions that (1) DPS should not cause a decrease in street efficiency, (2) the Service does not have complete data to measure the percentage of letters carrier routes receive in delivery sequence, (3) DPS is responsible for workhour reductions, and (4) DPS does not adversely affect carriers' efficiency or customer service. We disagree with NALC's assertion that we accepted Postal Service managers' opinions without scrutiny. For each area about which NALC expressed concern, we attempted to obtain data addressing the relevant issues. However, sufficient data were not readily available. Therefore, in addition to obtaining and attributing the views of Postal Service headquarters managers, we obtained and attributed the views of managers and letter carriers at the field locations we visited as well as the views of the Service's major unions and management associations, including NALC. Furthermore, we included a separate section in the report that discusses many of the specific concerns city carriers and NALC officials conveyed to us during interviews so that a balanced view of DPS would be presented.

2. NALC expressed the belief that in our reporting of selected city carrier national level arbitration cases, we casually accepted the independent arbitrators repeated findings that the Service violated its contract with NALC during DPS implementation. We understand that NALC and the Service have been at odds and NALC's view that the arbitrators' findings support its position. However, our intent was to objectively present the events that occurred and their effects on DPS implementation, which we believe is reflected in the report. In the report, we noted that the Service has lost two national arbitration cases involving DPS implementation. We explained that the arbitrators affirmed NALC's position that (1) unaddressed advertising mail constitutes a fourth bundle for carriers, which violates the parties current labor agreement and (2) the Service's DPS instructions to the field

were inconsistent with certain aspects of the 1992 agreements. To further recognize NALC's concern, we have added language to the report explaining that NALC filed grievances on the Service's DPS instructions at the national level, and most issues were settled without arbitration.

In addition, NALC questioned the draft report language, which it interpreted as indicating that an arbitrator's decision caused a delay in the Service achieving DPS workhour reductions. NALC stated that the Service's violation of its contract with NALC was the effective cause of the delay and not the arbitration's remedy. We have revised the language to clarify this information.

3. NALC suggested that our methodology was flawed because we interviewed and observed the delivery operations of a relatively small number of city carriers. NALC emphasized that the small number of carriers included in our review was inadequate since carriers and their performance were central to measuring the progress of DPS implementation. We believe that our methodology for accomplishing our objectives was sound and point out that evaluating carrier performance was not an objective of our review. As discussed in the report, we judgmentally selected and interviewed as many city carriers as possible given our resource limitations and time constraints. Our intent was not to interview a statistically representative sample of city carriers. Rather, we interviewed these carriers to provide balance and illustrative examples of their views regarding DPS implementation. We also accompanied two city carriers on their routes to observe their handling of DPS letters and other mail and to better understand their views regarding DPS work methods. We supplemented these interviews and observations with the opinions and illustrative information from NALC national level officials. Although our interviews and observations of city carriers are not statistically representative, their views largely mirrored those of NALC officials.

4. NALC stated that the draft report incorrectly asserts that DPS should not cause a decline in street efficiency. We have deleted this language from the report. However, to provide the views of the Service the report notes that, according to the Service, DPS would cause only a minimal increase in the time carriers would need to perform some operations on the street, which were formerly done in the office, and that DPS should not otherwise have a significant adverse effect on street efficiency. The report also notes that Service field managers and supervisors as well as the carriers we interviewed as a part of our review told us that, in general, DPS did cause some decline in carrier street efficiency.

Major Contributors to This Report

General Government Division

Gerald P. Barnes, Assistant Director
Hazel J. Bailey, Evaluator (Communications Analyst)

Denver Field Office

Arleen L. Alleman, Senior Evaluator
Rudolfo G. Payan, Senior Evaluator
Robert E. Kigerl, Staff Evaluator